

WASHINGTON BUSINESS COLLEGE
Empire State Building
Phone Main 1457, Spokane, Wash.

Henry Jensen

20th Century Bookkeeping

and

Accounting

A TREATISE ON THE PRINCIPLES OF ACCOUNTING AND
BOOKKEEPING PRACTICE APPLIED BY MODERN
BOOKKEEPERS AND ACCOUNTANTS

FIFTEENTH EDITION

(Sixth Printing)

FOR USE IN ALL SCHOOLS THAT TEACH BOOKKEEPING
AND ACCOUNTING

WASHINGTON BUSINESS COLLEGE

Empire State Building

Phone Main 1457, Spokane, Wash.

BY JAMES W. BAKER

ASSISTED BY

COMMERCIAL TEACHERS AND PRACTICING ACCOUNTANTS

THE DISCUSSION IN THIS TEXT AND THE TRANSACTIONS IN THE PRACTICE SETS WHICH
ACCOMPANY IT ARE THE RESULT OF SUGGESTIONS RECEIVED THROUGH PERSONAL
INTERVIEWS AND CORRESPONDENCE WITH THOUSANDS OF TEACHERS, PRACTICING
ACCOUNTANTS, AND BOOKKEEPERS, DURING TWENTY YEARS' ASSOCIATION
WITH THOSE ENGAGED IN COMMERCIAL WORK

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P R E F A C E

The successful business man should know that a profit will result from the transactions in connection with his business before they are completed. To determine this he should have such information as will show the detailed operating cost, the profit from trading or other operations, the net profit for each fiscal period, its source, and the increase or decrease over previous periods.

A report concerning the failure or suspension of a business, accompanied by the statement that the creditors will not know what percentage of their claims may be collected until the experts have audited the books, indicates that the management did not have all the facts available in connection with the business. Such a statement is so common in the newspaper announcement of failures that it suggests a connection between accounting and success.

If these conditions are to be improved, it is necessary to teach the correct principles of accounting and the best practice in applying them. The bookkeeping student of today is the bookkeeper or business man of tomorrow. If he has a knowledge of the correct principles, as bookkeeper he will apply them, or, as manager, he will see that they are applied by the bookkeeper.

The purpose of this text is to present the correct principles of bookkeeping and accounting—principles advocated and practiced by modern bookkeepers and accountants. The information upon which it is based was obtained from standard authorities on accounting and from consultations with practicing bookkeepers and accountants.

The text is prepared primarily for the student and not for the practicing bookkeeper or accountant. The presentation permits the beginner to master first the simple principles of accounting as applied in a small business. When he understands these, he can then appreciate the more complicated principles of accounting necessary in recording the transactions for a business of extensive operations.

A study of the text would result in only a theoretical knowledge of the subject. Practice is necessary in applying the principles. A correct knowledge of the principles is essential, but efficiency in applying this knowledge is of equal importance. The student who has mastered the principles of bookkeeping and accounting should have also acquired accuracy, neatness and speed. For this reason the practice sets require the recording of a number of transactions—a sufficient number to impress on the student's mind the importance of a correct record and to give him confidence and skill in applying his knowledge of the subject.

That the student may learn to recognize a transaction from the paper that represents it in business, he is required to make his record in the practice sets from reproduced business papers. The transactions, moreover, are practical and identical with those that occur in business. Applying the correct principles and recording practical transactions represented in the same manner as they are in business, gives the student a knowledge of the subject which will make his services desirable to the business man, and valuable to himself.

Not only should the student who has completed a course in bookkeeping and accounting understand the principles of the subject and the best practice in

PREFACE

applying these principles, but he should also have some knowledge of the efficient methods employed in modern business. This knowledge, given in connection with the sets, includes special ruling in all books of original entry, carbon copy and loose leaf records, controlling accounts, and many other time-saving methods made popular by practicing bookkeepers.

Efficiency in office routine means the greatest amount of work with the best results at the least cost. As applied to the work of the bookkeeper, it means the ability to record the greatest number of transactions with correct results in the least possible time. Throughout the text and sets, special attention is given to modern methods in recording transactions.

The student who has mastered the principles in this text and completed the sets that accompany it, need not hesitate to accept a position as bookkeeper in any office. He can rest assured that the training received will have prepared him to make a correct record in an efficient manner. If the work of his predecessor has not been done correctly, he is prepared to improve the method in use. He can act with assurance that the work he does will be approved by the accountant who audits his books.

The student of bookkeeping will soon be receiving an income, hence should know the connection between the knowledge gained through the bookkeeping course and the income tax return required by the Government. To provide this information, practice is given in the preparation of income tax returns. Information in regard to the forms is given in an appendix because these forms will be changed from time to time by legislation. The student who understands the principles of accounting as explained in this text, and the bookkeeping practice illustrated in the practice sets, will find the preparation of an income tax return a very simple problem.

THE PUBLISHERS.

Part One

Chapter I

BUSINESS AND BOOKKEEPING

The Purpose of this Chapter is to introduce the student to the subject of bookkeeping by showing him its purpose through an explanation of business. There are many reasons why the student should understand bookkeeping. The business man will pay well for information which he needs; hence the one who can provide this information through a knowledge of bookkeeping will command a good salary for his services. The student who is ambitious to become the owner of a business should know bookkeeping because this knowledge will enable him to interpret the information obtained from his bookkeeping records and to use it as a basis for future operations of the business.

§ 1. **Each Individual** requires food, clothing, education, amusement, and many other things necessary for his comfort and enjoyment. These necessities and luxuries can be obtained with money, which is a medium of exchange and the standard of value. An individual secures money (a) through income received as wages or salary for services he has rendered to others, (b) through the use by others of property which belongs to him, or (c) through the profit resulting from the operations of a business owned by him either in part or as a whole.

James Brown is employed as a salesman for the Citizens Motor Car Co.; his income is the salary received for the service rendered. J. W. Smith owns the building in which the Citizens Motor Car Co. is operated; his income is the rent received for the use of the building. W. O. Winkler owns the Citizens Motor Car Co.; his income is the profit made by selling automobiles at a price greater than the cost.

§ 2. **A Business.** The one who sells to the individual the food, clothing, education, amusement, or other things which the individual needs for his comfort and enjoyment, is said to be engaged in business, and the operations in connection therewith are referred to as business transactions. The operations include the buying and selling of the commodities in which the business deals, at a place of business and under a name selected by the owner. There are many kinds of businesses, each of which supplies a specific demand; there are many businesses of the same kind which undertake to supply the same demand.

Robert Brown owns and operates a drug store at 405 Main St., known and advertised to the public as "The Central Drug Store." Mr. Brown is a business man because he operates a business. The operations of his business include the buying and selling of medicine and drugs, as well as the other articles a drug store usually handles, and his business is referred to as a drug business.

§ 3. **Assets, Liabilities and Proprietorship.** If the owner of a business is to have ready for sale the merchandise or service which he expects to sell, he must have cash with which to purchase this merchandise or service. The cash, merchandise, and other property needed to carry on the operations of a business are known as its assets. Should the owner of a business agree either in writing or verbally to pay at a later date for the merchandise or service purchased, he has incurred an obligation or debt; this obligation is known as a liability, and all the obligations of the business are known as its liabilities. The liabilities are to be paid out of the assets of the business, hence the owner's interest in the busi-

ness is the excess of total assets over total liabilities; this interest is known as his proprietorship. Stated in equation form, assets—liabilities=proprietorship.

John Jones, who has \$3,000.00 in cash, wishes to purchase a drug store; Robert Brown, who owns and operates "The Central Drug Store" is willing to sell the same for \$2,500.00. January 1, Mr. Jones pays Mr. Brown \$2,500.00 for which he secures all the assets of the store; these include drugs, medicine, and other merchandise usually offered for sale by a drug store, and a soda fountain with the usual equipment. He retains the \$500.00 for the purpose of buying other drugs. If this \$500.00 is not sufficient to pay for the drugs purchased and these drugs are sold to him upon his promise to pay later, he incurs a liability. During the operations of the business his interest in the business is the value of all the assets belonging to the business less the liabilities.

§ 4. The Name of an Asset or a Liability depends on its nature. Custom has fixed the names of the assets which usually belong to a business and the liabilities which are usually incurred. Money is referred to as "cash"; written promises (in negotiable form) of those who agree to pay money to the business, as "notes receivable", and verbal promises, as "accounts receivable"; merchandise in stock, as "inventory"; fixtures used in the business, as "furniture and fixtures"; written promises (in negotiable form) of the business to pay money at a future date, as "notes payable"; and verbal promises, as "accounts payable".

§ 5. Cost and Income. When a business is organized, the owner expects to purchase the merchandise or other property which he sells, also to pay rent, salaries, advertising, etc.; these are known as costs. The owner of the business also expects to sell the merchandise or service which he offers for sale; the returns from sales are known as income. If the income be greater than the cost, the business has been operated at a profit; if the income be less than the cost, it has been operated at a loss.

When Mr. Jones bought the drug business, he knew there would be certain costs in connection with its operations, including rent, salaries, telephone service, purchases of merchandise, supplies for the soda fountain, etc. He was willing to assume these costs because he expected an income from the sales of merchandise which he purchased and from the products of his soda fountain. If at the end of the first year his costs amount to \$4,000.00 and his sales to \$5,000.00, he will have made a profit of \$1,000.00 through owning and operating the drug business.

§ 6. The Name of Each Cost and Income depends on its nature. It is quite evident that cost for rent and cost for merchandise purchased are of an entirely different nature; also that the income from the sale of merchandise and the income from the sale of service are of a different nature. Custom has fixed the names of the costs and income which occur in the usual operations of the business. Rent and salary costs are known as "expenses"; merchandise purchased for sale, as "purchases"; income from the sale of this merchandise, as "sales"; income from the use of money, as "interest"; income from the sale of services such as that rendered by telephone and telegraph companies, as "tolls"; and income from the sale of service rendered by a street railway company, as "passenger receipts".

§ 7. A Business Transaction is, theoretically, an exchange of equivalent values; that is, the business receives an equivalent value for the material or service which it sells to others, and gives an equivalent value for the material or service which it purchases. Because of this exchange of values, each transaction will result in a parting with values by the business with a resulting increase of liabilities or income; and a corresponding receipt of value with a resulting increase of assets or cost.

Mary Davis pays John Jones, the owner of the Central Drug Store, 25c for a magazine; this is a transaction performed by the owner because he receives cash and parts with a magazine. James Doyle pays the street-car conductor a fare of 8c; this is a transaction performed by the street-car company because it receives 8c cash for service it has rendered.

§ 8. Bookkeeping is the systematic recording of the transactions of a business, or of any changes which may affect the owner's interest in the business. This record is made (1) by writing the date, explanation, and amount of each

transaction; (2) by classifying the items of the record to show values received (assets and costs), and values parted with (liabilities and income).

The term "accounting" in the title of this text is usually used with the same meaning as bookkeeping. There is a technical difference which will be explained later. No attempt is made to explain everything about bookkeeping and accounting at the beginning, because it would only result in confusion, and the student can better learn as he advances.

§ 9. The Purpose of Bookkeeping for a Business is to provide a record of all transactions performed by the business. The owner of the business needs this information in order that he may know the value of the assets and liabilities of the business, and the cost and income resulting from its operations. The information gained through the operations of the business in the past can be of value to the owner in connection with the performance of future transactions only when he has a complete record of the transactions performed.

§ 10. The Purpose of Bookkeeping for an Individual whose income results from a salary or an investment is the same as for a business—that is, to assist the individual to better control his income and expenditures. If, at the end of each year, the individual knows his total income for the year and his expenses for the year, he will be in a far better position to control future expenditures than if he depends on the information obtained from an actual count of the assets he has remaining at the end of the year. The individual who has money invested in property should record the cost of the property, the cost of taxes, insurance, repairs, etc., and the income from rent; with this information he can determine whether his investment is profitable.

The individual whose income is a salary can better control his expenditures by making appropriations for those expenditures which he knows will occur, such as rent, food, clothing, amusements, contributions, etc.; this will enable him to avoid spending more for any one of these items than his salary will permit. This plan of making appropriations is referred to as a "budget system", and the list of appropriations, as a "budget". The budget system is not only applicable to the affairs of an individual, but is also applicable to the affairs of a government and a business concern. City, county, state, and national governments are rapidly adopting the budget system for the control of expenditures, and many business concerns make expenditures for advertising, salaries, improvements, etc., through a system of budgetary control.

§ 11. Summary. The student needs to know bookkeeping because a knowledge of the subject will increase the value of his services, whether sold to others or used in connection with his own business. Income can be earned through a salary received, an investment, or the operations of a business. A business man is one who undertakes to provide services or commodities for which there is a demand. Assets are needed in connection with the operations of a business, and liabilities may be incurred. The proprietorship of a business is the value of the assets after the liabilities are deducted. Cost refers to expenses and purchases made necessary in order that the business man may have an income through the sales of merchandise or services. A business transaction is an exchange of equivalent values; each value involves an asset, a liability, a cost, or an income. These transactions are recorded in order that the owner of the business may have a record of them. This record is made by writing the date of the transaction, the name of the asset, liability, cost or income, and the value received and the value parted with. Every transaction affects an asset or an income and a liability or a cost.

QUESTIONS

1. What is the purpose of bookkeeping?
2. Is it advisable for a person who receives a salary for his services to keep a record of the transactions which he performs in connection with his affairs?
3. Name some of the transactions which the individual would perform in connection with his affairs.

4. Would you think it advisable for a person who receives a salary to appropriate fixed amounts for living expenses, clothing, charity, and savings? State reasons for answer.
5. Would it be advisable for the owner of an apartment building with six apartments to keep a record of the transactions performed in connection with the operation of the building? Why?
6. Name some of the transactions which the owner of the apartment building would perform.
7. How would he ascertain whether the ownership of the apartments was a profitable investment?
8. Would you consider a contractor who undertakes to build houses, roads, sidewalks, etc., a business man? Why?
9. Name some of the transactions which he would perform in connection with the operations of his business.
10. Is the payment of street car fare by the individual who rides on the car a business transaction from the standpoint of the street car company?
11. Name some of the assets which would be needed and some of the liabilities which might be incurred in connection with the operation of a railroad.
12. Name some of the assets and liabilities in connection with the operation of a grocery business.
13. Would you consider it advisable for those in charge of a city government to make a record of the transactions completed in connection with its operations? Why?
14. Name some of the transactions which would be recorded in connection with the operations of a city government.
15. Is an automobile truck, owned and used by the grocer for delivering groceries, one of the assets of his business?
16. Name some of the operating costs in connection with the operations of a steamer which carries freight and passengers.
17. Name some of the assets which would be needed and the liabilities incurred in connection with the operations of this steamer.
18. Name some of the operating costs in connection with the publication of a daily newspaper.
19. Name some of the assets and liabilities in connection with the publication of a newspaper.
20. Is the farmer engaged in operating a business?
21. Name some of the transactions which would occur in connection with the operations of a farm.
22. Name some of the assets needed by the farmer and some of the liabilities he might incur in connection with the operations of his farm.
23. Name some of the operating expenses which it would be necessary for the farmer to pay in connection with the operations of his farm.
24. Name some of the transactions which a physician would perform in connection with his practice.
25. Name three businesses of the same kind. Name three businesses of different kinds.

CASH ACCOUNT

§ 15. **The Purpose of this Account** is to show the amount of cash belonging to the business as a result of the transactions in which cash is received and paid. "Cash" is a term applied to money or any commercial paper which the bank will accept at its face value as money. The various forms of commercial paper which are regarded as cash will be explained and illustrated later.

Debit the Cash Account:

Credit the Cash Account:

¶ 1. For cash received.

¶ 2. For cash paid.

¶ 3. *The Balance of the Cash Account* shows the amount of cash which belongs to the business as a result of the cash transactions completed; it is one of the assets of the business. This cash may be in the safe, in the bank for safe-keeping, or a part in each place. (See Illustration No. 3.)

There are four important points relating to each account which the student should understand: (a) its purpose, (b) the transactions to be recorded on the debit side, (c) the transactions to be recorded on the credit side and, (d) the interpretation of its balance—that is, whether it represents an asset, a liability, a cost, or an income. The discussion of each account in this text is arranged so as to emphasize these four points.

§ 16. **Proving Cash.** Since the Cash account is a record of all cash received and paid, the balance should be the same as the cash belonging to the business. Cash is proved by counting the cash and comparing the amount with the balance of the Cash account. If there has been an error in making change, or a transaction affecting cash has not been recorded, it is obvious that the balance of the account will not be the same as the cash on hand.

PURCHASES ACCOUNT

§ 17. **The Purpose of this Account** is to show the net cost of all the merchandise purchased for sale. Merchandise is a general term applied to goods bought and sold in the trading business, such as groceries, clothing, shoes, hats, hardware, drugs, musical instruments, jewelry, etc.

Debit the Purchases Account:

Credit the Purchases Account:

¶ 1. For the cost of merchandise purchased, and the transportation (freight, express, and postage), drayage, and storage cost of this merchandise.

¶ 2. For the cost price of merchandise returned to the seller, and allowances granted by him.

¶ 3. *The Balance of the Purchases Account* shows the net cost of merchandise purchased during the period for which the record is kept; it is one of the costs of the business. This balance will not, as a rule, represent the value of the merchandise owned by the business because the merchandise was purchased for sale and a part of it has probably been sold. (See Illustration No. 3.)

SALES ACCOUNT

§ 18. **The Purpose of this Account** is to show the net returns from the sales of merchandise. It is a record of the transactions affecting the sales of those articles purchased for sale, the cost of which is debited to the Purchases account.

Debit the Sales Account:

Credit the Sales Account:

¶ 1. For the selling price of merchandise returned by the customer, and allowances granted to him.

¶ 2. For the selling price of merchandise sold.

¶ 3. *The Balance of the Sales Account* shows the net returns from the sales of merchandise during the period for which the record is kept; it is one of the incomes of the business. (See Illustration No. 3.)

RECORDING TRANSACTIONS DIRECT IN THE LEDGER

§ 19. Transactions are Recorded in the order in which they occur. The record may be made direct in the ledger or in a separate book and transferred to the ledger. Illustration No. 3 shows the method of recording direct in the ledger the transactions outlined below and at the top of page 12. The transactions are those relating to the sales and purchases of merchandise for cash, performed by the soda fountain department of The Central Drug Company during the week beginning July 2.

July 2. Cash sales for the day per cash register, \$39.40.

Recorded in Illustration No. 3 on the debit side of the Cash account and credit side of the Sales account.

3. Bought syrups and extracts, \$5.00; Coca-Cola, \$12.75; ice cream, \$19.20.
Recorded in Illustration No. 3 on the debit side of the Purchases account and credit side of the Cash account.

Cash sales for the day per cash register, \$50.30.

Recorded in Illustration No. 3 on the debit side of the Cash account and credit side of the Sales account.

5. Returned one gallon of ice cream purchased on the 3d, and received \$2.50, the cost price of the cream.

Recorded in Illustration No. 3 on the debit side of the Cash account and credit side of the Purchases account.

Bought sandwiches, \$12.50; flavoring, \$16.40; ice cream, \$20.00.

Recorded in Illustration No. 3 as explained in § 17, ¶ 1 and § 15, ¶ 2.

(Concluded on page 12)

Cash

192				192			
July	2		39 40	July	3		36 95
	3		50 30		5		48 90
	5		250		7		150
	6		21 50				750
	7		62 50				
			72 20				

Purchases

1922				1922			
July	3		36 95	July	5		250
	5		48 90				
			55 45				

Sales

1922				1922			
July	7		150	July	2		39 40
					3		50 30
					6		21 50
					7		62 50
							70 70

Illustration No. 3, A Ledger Containing Three Accounts.

EXPLANATION. The information given in connection with each transaction and the method of recording it is sufficient explanation of this illustration.

(Continued from page 11)

July 6. Cash sales for the day per cash register, \$21.50.

Recorded in Illustration No. 3 as explained in § 15, ¶ 1 and § 18, ¶ 2.

7. Gave James Smith \$1.50 for one-half gallon of ice cream which he returned because it was received in bad condition.

Recorded in Illustration No. 3 as explained in § 18, ¶ 1 and § 15, ¶ 2.

Cash sales for the day per cash register, \$62.50.

Recorded in Illustration No. 3 as explained in § 15, ¶ 1 and § 18, ¶ 2.

§ 20. A Trial Balance is a list of the open accounts in the ledger with the balance or the total debits and total credits set opposite the name of each account; its purpose is to test the equality of the debits and credits recorded in the ledger. The Trial Balance is usually prepared on paper with two money columns ruled at the right so that the debit totals or debit balances may be entered in one column, and the credit totals or credit balances in the other. The test is satisfactory when the total of the debit column on the Trial Balance equals the total of the credit column. Illustration No. 4 shows a Trial Balance of totals, and No. 5 a Trial Balance of balances prepared from the ledger in Illustration No. 3.

Central Drug Co.
Trial Balance July 7, 192

	/ Cash	176 20	87 35
	/ Purchases	858 5	250
	/ Sales	150	173 70
		263 55	263 55

Illustration No. 4, A Trial Balance of Totals.

EXPLANATION. This Trial Balance is prepared from the ledger in Illustration No. 3. The page in the ledger and the name of each account are written at the left, and the total debits and total credits are written in the two money columns at the right. If the Trial Balance is footed before it is ruled, the totals are entered in small pencil figures in the same manner as the totals in Illustration No. 3. Comparing Illustration No. 4 with Illustration No. 3, the student will observe that the debit amounts and the credit amounts in each account in the ledger are added and the totals written in small pencil figures before preparing the Trial Balance.

Central Drug Co.
Trial Balance July 7, 192

	/ Cash	88 85	
	/ Purchases	83 35	
	/ Sales		172 20
		172 20	172 20

Illustration No. 5, A Trial Balance of Balances.

EXPLANATION. It is customary, when taking a Trial Balance of balances, to write the balance in the explanation column on the larger side of the account in the ledger. These balances are not shown in Illustration No. 3 because they are not needed in taking a Trial Balance of totals.

Exercise No. 1, Recording Transactions Direct in the Ledger.

Record on ledger paper* (paper with the same ruling as Illustration No. 2) the following transactions performed during the month of January by J. W. McCormick, a dealer in musical instruments. Write the names of the three accounts before recording the transactions; allow twelve lines for Cash, eight lines for Purchases and twelve lines for Sales. The space given for each account includes sufficient lines for recording the transactions and one line for the name of the account. If one sheet of ledger paper is used for the three accounts, separate them by double red lines as in Illustration No. 3.

In practice, transactions are recorded separately from the ledger and transferred to it, but for the purpose of instruction the first few exercises are recorded direct in the ledger.

- Jan. 1. Sold for cash one piano, \$450.00.
Record on the debit side of the Cash account and on the credit side of the Sales account in the same manner as the transaction for July 2 is recorded in Illustration No. 3.
2. Bought for cash one gross Victrola records, \$110.00.
Record on the debit side of the Purchases account and on the credit side of the Cash account in the same manner as the first transaction for July 3 is recorded in Illustration No. 3.
5. Sold for cash one Victrola, \$225.00; six records, \$10.50.
Record in one amount on the debit side of the Cash account and on the credit side of the Sales account in the same manner as the second transaction for July 3 is recorded in Illustration No. 3.
7. Sold for cash one piano, \$350.00.
10. Sold for cash one player-piano, \$500.00; music rolls, \$22.50.
12. Bought for cash three Victrolas, \$320.00; paid freight on the same, \$52.50.
14. Sold for cash one Victrola, \$200.00; thirty records, \$42.50.
17. Gave J. O. Smith \$1.50 for a damaged record which he purchased on the 14th and returned.
Debit \$ 18, ¶ 1; credit \$ 15, ¶ 2.
18. Sold for cash one Victrola, \$50.00; records, \$6.50.
20. Bought for cash one piano, \$225.00; paid freight and drayage, \$42.65.
23. Received 90c from the record distributing agent for the damaged record returned to us on the 17th.
Debit \$ 15, ¶ 1; credit \$ 17, ¶ 2.
27. Sold for cash one Victrola, \$75.00; records, \$10.50.
Bought for cash one piano, \$300.00; paid freight, \$48.65.
30. Received \$3.50 from the railroad company to pay for overcharge on freight paid on the 20th.
Debit \$ 15, ¶ 1; credit \$ 17, ¶ 2.
31. Sold for cash one piano, \$350.00.

When these transactions have been recorded in the three accounts, add the debit side and the credit side of each account, enter the totals in small pencil figures as in Illustration No. 3, and prove the equality of the debits and credits by a Trial Balance of totals as in Illustration No. 4.

Exercise No. 2, Recording Transactions Direct in the Ledger.

Record on ledger paper* the following transactions performed during the week beginning May 28 by Charles Smith, a butcher. Allow space for the accounts as follows: Cash, ten lines; Purchases, eight lines; Sales, nine lines.

May 28. Cash sales for the day per cash register, \$42.85.

(Concluded on page 14)

*NOTE. The exercises in the text are not to be recorded in the books of account provided for the practice set. Unless special blanks, marked "For Exercises in the Text", are provided, the student should use loose sheets of ruled paper. Present exercises for approval as directed on the direction card or as directed by the instructor.

Exercise No. 2—(Continued from page 13.)

- May 29. Bought meat for cash, \$22.50.
Cash sales for the day per cash register, \$35.60.
30. Paid the express company \$20.00, \$18.75 of which was for a cash purchase of lard and \$1.25 for express charges on the lard.
Cash sales for the day per cash register, \$45.25.
31. Gave Mrs. R. K. Polk \$1.10 cash for a steak which she returned because it was not satisfactory.
- June 1. Bought meat for cash, \$57.50.
Cash sales for the day per cash register, \$49.90.
2. Received \$3.50 from the Central Provision Co. for lard which we returned as per agreement.
Bought meat for cash, \$36.40.
Cash sales for the day per cash register, \$72.19.

When these transactions have been recorded in the three accounts, add the debit side and the credit side of each account, enter the totals in small pencil figures, and prove the equality of the debits and credits by a Trial Balance of totals as in Illustration No. 4.

Exercise No. 3, Recording Transactions Direct in the Ledger.

Record on ledger paper the following transactions performed during the week beginning September 15 by Shepherd Young, who conducts the Central Cafeteria. Allow space for the accounts as follows: Cash, eleven lines; Purchases, nine lines; Sales, ten lines.

- Sept. 15. Paid cash for meat, \$25.50; bread, \$4.75.
Received for cash sales, \$37.55.
16. Paid cash for vegetables, \$12.80.
Received for cash sales, \$32.65.
17. Paid cash for canned goods, \$13.75; meat, \$15.00; bread, \$5.50.
Received for cash sales, \$29.90.
18. Received cash, \$2.50, for canned goods returned by us as per agreement.
Received for cash sales, \$31.55.
19. Paid cash for meat, \$9.75; bread, \$3.40.
Received for cash sales, \$27.90.
20. Paid cash for vegetables, \$13.50; bread, \$5.60; butter, \$7.55.
Received for cash sales, \$44.59.

Complete in the same manner as instructed at the conclusion of Exercises Nos. 1 and 2.

§ 21. A **Book of Original Entry** is one ruled to contain a record of business transactions arranged chronologically, that is, in the order of their occurrence. The information given in connection with the record of each transaction in a book of original entry should be arranged so that the value received and the value parted with may be transferred to the accounts in the ledger. The method of recording transactions in a book of original entry is illustrated and explained in this and succeeding chapters.

The purpose of a book of original entry is to provide a basis for the information recorded in the ledger. When transactions are recorded direct in the ledger it is difficult to detect errors because there is no complete record of each transaction in one place. Should the bookkeeper fail to record a debit or a credit he might have difficulty in locating the error.

§ 22. The **Journal** is a book of original entry. The ruling is shown in Illustration No. 6 and the method of recording transactions on this ruling, in Illustration No. 7. A comparison of these two illustrations shows that space is provided for the name of the account debited and the amount (value received),

Illustration No. 6, Ruling for a Page in the Journal.

EXPLANATION. The purpose of the ruling in this journal can be understood better by comparing it with that in Illustration No. 7, which contains the same form of ruling with transactions recorded. The student will observe that debits and credits are indicated by the position of the writing and figures.

the name of the account credited and the amount (value parted with), and the explanation of the transaction; this explanation should be so worded that one who is familiar with accounting may know that the values received and the values parted with have been correctly expressed in the record.

¶ 1. *Journalizing* is (a), the analysis of transactions to determine which accounts shall be debited and which credited; or (b), the recording of the names of the accounts debited and credited with the amounts in a book of original entry.

§ 23. Posting from the Journal is transferring the amounts from the journal to the accounts in the ledger. Each amount in the first money column is posted to the debit side of the account written on the same line with it, and each amount in the second money column is posted to the credit side of the account written on the same line with it. The posting is indicated by writing the letter "J" and the page of the journal in the folio column in the ledger, and the page of the account in the ledger in the folio column in the journal. The amounts recorded in the journal are posted to the ledger in the same order as they appear in the journal; the purpose of posting is to provide in the ledger, through accounts, a complete history of all the transactions with each asset, liability, cost and income.

The transactions recorded in Illustration No. 7, when posted to the ledger accounts, will appear as in Illustration No. 8, and a Trial Balance from these ledger accounts will appear as in Illustration No. 4 or No. 5.

RECORDING TRANSACTIONS IN THE JOURNAL.

§ 24. Transactions are Recorded in the Journal in the order in which they occur. A complete record of a transaction in the journal shows the date of the transaction, the name of the account debited and the amount, the name of

the account credited and the amount, and the explanation. This explanation is for the information of the bookkeeper or any person who may have occasion to examine the record. The record should show a distinction between debits and credits to facilitate posting.

The following transactions affecting the purchases and sales of merchandise for cash, performed by the soda fountain department of the Central Drug Co.

July 2, 192

1	Cash	39 40	
1	Sales		39 40
	Cash sales for the day		
	3		
1	Purchases	36 95	
1	Cash		36 95
	Bought syrups and Coca Cola for cash		
	3		
1	Cash	50 30	
1	Sales		50 30
	Cash sales for the day		
	5		
1	Cash	2 50	
1	Purchases		2 50
	Received \$2.50 for 1 gal. ice cream returned		
	5		
1	Purchases	48 90	
1	Cash		48 90
	Bought ice cream and sandwiches for cash		
	6		
1	Cash	21 50	
1	Sales		21 50
	Cash sales for the day		
	7		
1	Sales	1 50	
1	Cash		1 50
	Paid \$1.50 for 1/2 gal. ice cream returned		
	7		
1	Cash	62 50	
1	Sales		62 50
	Cash sales for the day		

Illustration No. 7, A Journal Page with Transactions Recorded on It.

EXPLANATION. The transactions shown recorded here are outlined on pages 17 and 18. The ledger accounts resulting from posting are shown in Illustration No. 8.

during the week beginning July 2, are shown recorded in the journal in Illustration No. 7 and posted to the ledger in Illustration No. 8. These transactions are the same as those beginning on page 11.

July 2. Cash sales for the day per cash register, \$39.40.

Recorded in the first entry in Illustration No. 7. The position of the writing and figures shows that Cash is debited and Sales credited.

3. Bought syrups and extracts, \$5.00; Coco-Cola, \$12.75; ice cream, \$19.20. Recorded in the second entry in Illustration No. 7. The position of the writing and figures shows that Purchases is debited and Cash credited.

Cash sales for the day per cash register, \$50.30.

Recorded in the third entry in Illustration No. 7. The position of the writing and figures shows that Cash is debited and Sales credited.

5. Returned one gallon of ice cream purchased on the 3d, and received \$2.50, the cost price, for the same.

Recorded in the fourth entry in Illustration No. 7. § 15, ¶ 1 is debited and § 17, ¶ 2 credited.

(Concluded on page 18.)

Cash

1922				1922			
July	2	Dr.	39 40	July	3	Dr.	36 95
	3	Dr.	50 30		5	Dr.	48 90
	5	Dr.	2 50		7	Dr.	1 50
	6	Dr.	21 50				
	7	Dr.	62 50				
			75 70				

Purchases

1922				1922			
July	3	Dr.	36 95	July	5	Dr.	2 50
	5	Dr.	48 90				
			85 85				

Sales

1922				1922			
July	7	Dr.	1 50	July	2	Dr.	39 40
					3	Dr.	50 30
					6	Dr.	21 50
					7	Dr.	62 50
							75 70

Illustration No. 8, A Ledger with Three Accounts Resulting from Posting.

EXPLANATION. The accounts in this ledger are the result of posting the transactions recorded in the journal, Illustration No. 7. A comparison of the two illustrations shows that each amount entered in the first column of the journal is posted to the debit side of the account written on the same line with it, and each amount entered in the second column of the journal is posted to the credit side of the account written on the same line with it. The posting is indicated by writing the journal page (1) in the ledger, and the ledger page (1) in the journal.

(Continued from page 17.)

- July 5. Bought sandwiches, \$12.50; flavoring, \$16.40; ice cream, \$20.00.
Recorded in the fifth entry in Illustration No. 7. § 17, ¶ 1 is debited and § 15, ¶ 2 credited.
6. Cash sales for the day per cash register, \$21.50.
Recorded in the sixth entry in Illustration No. 7. § 15, ¶ 1 is debited and § 18, ¶ 2 credited.
7. Gave James Smith \$1.50 for one-half gallon of ice cream which he returned because it was received in bad condition.
Recorded in the seventh entry in Illustration No. 7. § 18, ¶ 1 is debited and § 15, ¶ 2 credited.
- Cash sales for the day per cash register, \$62.50.
Recorded in the eighth entry in Illustration No. 7. § 15, ¶ 1 is debited and § 18, ¶ 2 credited.

Exercise No. 4, Recording Transactions in the Journal and Posting.

Record on journal paper* (paper with the same ruling as Illustration No. 6) the following transactions performed during the month of March by Robert Smith, a dealer in used automobiles:

- Mar. 1. Sold A. L. Lott a used Chandler for \$840.00 cash.
3. Bought a used Ford from W. H. Roland for \$250.00 cash.
8. Sold W. W. Jones a used 1923 Franklin for \$925.00 cash.
15. Bought a used Packard from Robert MacFarland for \$980.00 cash.
19. Sold Davis Bros. the used Packard purchased on the 15th, for \$1,200.00 cash.
25. Bought a used Hudson from David Browning at Danville for \$950.00 cash; paid Charlie Smith \$25.00 for delivering this car.
31. Sold B. M. Morris the used Hudson purchased on the 25th, for \$1,250.00 cash.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (8), Purchases (7), and Sales (8); allowing for each account the number of lines indicated by the number given in parenthesis after the name of the account; post the transactions, and prove the posting by a Trial Balance of balances.

Exercise No. 5, Recording Transactions in the Journal and Posting.

Record on journal paper* the following cash transactions performed by the H. F. Ritter Electric Co. during the month of August:

- Aug. 1. Sold M. N. Stewart a No. 9 electric washer, \$135.50.
2. Sold A. L. Graham three Solvay electric fans, \$99.75.
5. Bought three electric lamps from the General Electric Co., \$85.70.
9. Received \$275.00 from the Dowell Construction Co. in payment for one No. 10 electric washer.
12. Bought two electric washers from the General Electric Co., \$325.00.
16. Sold Mrs. J. M. Taylor one electric iron, \$13.50.
18. Sold Mrs. A. L. Day one electric lamp, \$42.50.
21. Gave H. L. Jones \$5.50 for an electric iron which he purchased for cash and returned per agreement.

(Concluded on page 19.)

*See note at bottom of page 13.

(Continued from page 18.)

- Aug. 25. Sold Dr. C. C. Doyle one No. 5 electric pad, \$22.50; one No. 6 Violet Ray machine, \$35.00.
 26. Sold E. E. Erblang one No. 10 electric flashlight, \$2.50; one extra battery for the same, 50c.
 28. Received \$12.50 from the General Electric Co. for a lamp which we purchased from them on the 5th, but returned because it was not the kind ordered.
 31. Gave E. E. Erblang \$3.00 for the flashlight and battery sold him on the 26th and returned per agreement.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (12), Purchases (6), and Sales (11), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of totals.

Exercise No. 6, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of March by Martin R. Daley, a retail furniture dealer:

- Mar. 1. Sold for cash one bedroom suite, \$175.00; one dining room suite, \$196.50.
 5. Paid cash for furniture purchased, \$209.60.
 10. Paid \$18.75 cash, freight on furniture purchased.
 12. Received cash for six rugs sold, \$205.75.
 Paid cash for furniture purchased, \$172.60.
 15. Gave a customer cash, \$5.50, for a chair returned as per agreement.
 18. Paid cash for furniture purchased, \$82.50.
 21. Received \$14.75 cash for three small rugs returned by us to the seller as per agreement.
 25. Sold for cash one refrigerator, \$55.00; one gas range, \$47.50; one kitchen cabinet, \$65.00.
 30. Paid the American Railway Express Co. cash, \$2.50, for express charges on furniture purchased.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (10), Purchases (9), and Sales (7), allowing for each account the number of lines indicated; post the transactions and prove the posting by a Trial Balance of balances.

QUESTIONS

1. What is the purpose of an account?
2. In what order are the transactions recorded?
3. State the two methods of recording transactions.
4. How is a cash sale recorded (a) in the journal and (b) direct in the ledger?
5. Which is preferable, a bound book or a loose-leaf book?
6. If a merchant wishes to know the total sales of merchandise for any given number of months, from which book of account would he obtain the information? from what account?
7. If a drug store has five departments, would it be necessary to maintain a Cash account for each department? Give reasons for your answer.
8. Would it be necessary to keep a separate record of the sales made by each of the five departments mentioned in Question No. 7?

9. If you were keeping books for a local merchant and, when you proved cash at the close of January 10, you found that you had \$2.00 more cash than the amount shown by the Cash account, what entry would you make for the \$2.00?
10. Why will the Sales account always show a credit balance?
11. Why will the Purchases account always show a debit balance?
12. Why will the Cash account always show a debit balance?
13. Why does the Trial Balance prove that the total debits equal the total credits in the ledger?
14. If \$10.00 cash is received for a sale of merchandise and the amount is erroneously entered on the credit side of the Purchases account instead of the Sales account, how would it affect the Trial Balance?
15. How would the error mentioned in Question 14 affect the balance of the Purchases account? the Sales account?
16. If the debits and credits on the Trial Balance are not equal, how does the bookkeeper who has recorded the transactions separate from the ledger ascertain the error?
17. Why is it advisable to give an explanation of each entry in the journal?
18. If \$10.10 cash is received for merchandise sold and recorded in the journal as Cash, Dr., \$10.00, and Sales, Cr., \$10.10, what effect will this have on the Trial Balance, if the entry is posted as recorded?
19. What does a telephone company sell?
20. Would these sales be recorded in a Sales account?
21. Would the bookkeeper for a city government have a Sales account in his ledger?
22. Would the farmer who keeps a record of the transactions he performs have a Sales account in his ledger?
23. If a merchant discontinues business and sells all the merchandise which he owns, what will the balance of the Sales account show after it is credited with the amount received from the sale?
24. Under the conditions mentioned in Question No. 23, what would the balance of the Purchases account show?
25. If a grocer buys an automobile truck to be used in delivering merchandise, would the value of this truck be debited to the Purchases account? Give reasons for your answer.

Chapter III

RECORDING TRANSACTIONS—Continued

§ 25. Purchases and Sales of Merchandise on Account. When the owner of a business purchases merchandise with the agreement that it is to be paid for at a later date, he incurs an obligation or a liability. The transaction will be recorded in the same manner as if he had paid cash except the name of the person or business from whom the merchandise is purchased will be credited in place of cash; when the obligation is paid as per agreement, the account with the person or business will be debited and Cash credited. The value received in the first transaction is the merchandise purchased, and the value parted with, the promise to pay the liability incurred. The value received in the second transaction is the cancellation of the obligation, and the value parted with, the cash.

When the owner of a business sells his merchandise with the agreement that it is to be paid for at a later date, he extends credit to the one who purchases the merchandise. A transaction of this nature is the same as a cash sale in that an asset is received and an income earned, hence an asset account is debited and an income account credited. Since cash is not received, the asset is recorded in the account with the person to whom the sale is made; the income is recorded in the Sales account. When the person to whom the merchandise was sold on account pays for it, the transaction involves an exchange of one asset (cash received) for another asset (personal account canceled), hence the Cash account is debited and the account with the person credited.

Purchases and sales of merchandise where cash is not involved are referred to as "on account", possibly because the account with the person takes the place of cash until the amount is paid. The owner of the business regards those who extend credit to him as his creditors, and those to whom he extends credit as his customers; the term "customer" also applies to those from whom cash is received at the time the sale is made.

ACCOUNTS WITH PERSONS

§ 26. Accounts with Persons are those required when credit is extended to the business through the purchase of merchandise, or when the business extends credit to its customers through the sale of merchandise. Accounts with persons are divided into two classes: one (accounts with customers) shows the result of transactions with the persons to whom the business sells merchandise or other assets on account, usually referred to as "accounts receivable"; and the other (accounts with creditors) shows the result of transactions with those from whom merchandise is purchased on account, usually referred to as "accounts payable".

ACCOUNTS RECEIVABLE

§ 27. The Purpose of an Account with a Customer is to show the balance due from the customer as a result of the transactions in which the business sells merchandise to him on account. When a customer pays cash for merchandise, it is not necessary to record the transactions in an account with him; but when he buys and does not pay cash, it is necessary to record the date and amount of the sale in an account with him so that the owner may know the amount the cus-

customer owes him when settlement is desired. A separate account is kept with each customer because the owner of the business should know the amount due from each customer as well as the total amount due from all customers. The address of each customer should be given in connection with the title of his account; this includes city and state, and street number in a large city.

Debit the Account of Each Customer:

¶ 1. For the selling price of merchandise sold to him on account, and for prepaid transportation charges if the terms of sale do not include delivery.

Credit the Account of Each Customer:

¶ 2. For the cash or other assets received from him to apply on account, and for the amount of any allowance or deduction granted to him. Partial payments are indicated as explained in ¶ 5.

¶ 3. *The Balance of an Account Receivable* shows the amount the customer owes the business. It is one of the assets of the business. The debit side will be the larger unless the customer should pay for more than he has purchased. When the two sides are equal, his account is said to be in balance; this indicates that he has paid for all the merchandise sold him on account.

¶ 4. *Ruling an Account Receivable.* When the account with a customer is in balance, it should be ruled with a single red line on each side, across the money columns only, as in the account with Walter Rogers in Illustration No. 9; the lines should be drawn on the same blue line on each side when possible. If there are a number of debits or credits, the two sides should be footed with small pencil figures to prove that they are equal before ruling as in the account with People's Hotel on page 71. The use of red ink for ruling is not arbitrary but it is customary for bookkeepers to use it, hence its use in the illustrations.

¶ 5. *Partial Payments.* A debtor has the right, by law, to indicate on what item his payment shall be applied. Thus if he owes several amounts and wishes the payment to be applied to any one particular amount, and indicates this, the credit must be applied on that amount. In cases of this kind the bookkeeper should indicate the amount on which the credit is applied by placing a letter at the left of the amount of the item on the debit side, and placing the same letter to the left of the amount of each payment on the credit side. It is best to begin with "a" and continue with as many letters as may be required for payments on different debits. The letters are not necessary when an item is paid in full by one payment, and the account is ruled. If the payments are indicated by letter as explained, the bookkeeper can ascertain the amount due for any one sale without referring to a book of original entry. The use of the letters as explained here is illustrated in the personal accounts on pages 70, 71 and 72.

Those to whom the business sells merchandise on account are referred to as "trade customers" and those from whom it buys merchandise on account, as "trade creditors". Property other than merchandise may be bought or sold on account; such sales and purchases are recorded in personal accounts in the same manner as sales and purchases of merchandise.

ACCOUNTS PAYABLE

§ 28. **The Purpose of an Account with a Creditor** is to show the balance due to the creditor as a result of the transactions in which the business buys merchandise from him on account. When merchandise is purchased for cash, no account with the one from whom it is purchased is necessary because the transaction is completed; but when the business buys on account, it is necessary to keep a record of such transactions in order that the owner may know the amount

he owes at the time settlement is made. A separate account is kept with each creditor because the owner of the business should know the amount he owes each creditor as well as the total amount due all creditors. The address of each creditor should be given in connection with the title of the account; this includes city and state, and street number in a large city.

Debit the Account of Each Creditor:

¶ 1. For cash or other assets of the business given him to apply on account, and for any allowance or deduction granted to the business by him. Partial payments are indicated as explained in § 27, ¶ 5.

Credit the Account of Each Creditor:

¶ 2. For the cost of merchandise purchased from him on account, and for prepaid transportation charges if the terms of purchase do not include delivery.

¶ 3. *The Balance of an Account Payable* shows the amount the business owes the creditor. The credit side will be the larger unless the business should pay a creditor more than it owes him. The balance due a creditor is one of the verbal obligations of the business, hence a liability.

¶ 4. *Ruling an Account Payable.* The account with a creditor is ruled in the same manner as an account with a customer, as described in § 27, ¶ 4.

¶ 5. *Partial Payments* should be indicated by letter as explained in § 27, ¶ 5. This enables the bookkeeper to ascertain the balance due on any one purchase without referring to a book of original entry.

RECORDING TRANSACTIONS DIRECT IN THE LEDGER

§ 29. **Transactions** with customers and creditors on account may be recorded direct in the ledger in the same manner as cash transactions. When credit is extended to a customer of the business, his promise to pay the amount of the sale is recorded on the debit side of his account as the value received, and the value of the merchandise sold, on the credit side of the Sales account in the same manner as a cash sale. When credit is extended to the business, the cost of the merchandise purchased is recorded on the debit side of the Purchases account in the same manner as a cash purchase, and the same amount is recorded on the credit side of the creditor's account because the promise of the owner of the business to pay for the merchandise bought is regarded as the value parted with. The account with a customer remains on the ledger as an asset, and that with a creditor as a liability, until settlement is made, either with cash or some other asset.

The following transactions affecting the purchases and sales of merchandise for cash and on account, performed by J. H. Henderson, a retail furniture dealer, during the month of November, are shown recorded direct in accounts with Cash, customers, creditors, Purchases, and Sales in Illustration No. 9 and a Trial Balance of totals made from the accounts, in Illustration No. 10.

- Nov. 1. Purchased furniture from the Consolidated Furniture Co., Grand Rapids, on sixty days' time, \$215.75.
2. Sold C. H. Powers, Arlington, on account, one bedroom suite, \$125.00.
6. Sold Walter Rogers, City, on account, one hatrack, \$22.50.
12. Received cash for furniture sold today, \$625.50.
14. Paid the Consolidated Furniture Co. \$100.00 on account.
20. Received \$22.50 from Walter Rogers in payment for the hatrack sold him on the 6th.
25. Received \$25.00 from C. H. Powers to apply on account.
26. Sold C. H. Powers on account three leather rockers at \$25.50 each.
29. C. H. Powers returned one rocker and was allowed credit for \$25.50.

Cash

¹⁹² Nov. 12	625 50	¹⁹² Nov. 14	1 00
20	225 0		
25	675 0		

C. H. Powers
Arlington

¹⁹² Nov. 2	125	¹⁹² Nov. 25	25
26	276 50	29	255 50

Walter Rogers
City

¹⁹² Nov. 6	225 0	¹⁹² Nov. 20	225 0
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Consolidated Furniture Co.
Grand Rapids

¹⁹² Nov. 14	100	¹⁹² Nov. 1	60 days	215 75
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Purchases

¹⁹² Nov. 1	215 75		
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Sales

¹⁹² Nov. 29	255 0	¹⁹² Nov. 2	125
		6	225 0
		12	625 50
		26	276 50

Illustration No. 9, A Ledger with Six Accounts.

EXPLANATION. This illustration is in the same form as Illustration No. 3, with the exception of three additional accounts, two with customers and one with a creditor. A comparison of the transactions with the record will show that the value received in each is recorded on the debit side, and the value parted with on the credit side. The "60 days" in the explanation column of the account with the Consolidated Furniture Co. refers to the time when payment is to be made. Since the purchase is on November 1, payment will be expected on December 31. When no specific time of settlement is mentioned, the purchase or sale is sometimes referred to as "on account", and settlement is usually required on the first of the month following the purchase or sale.

J. H. Henderson
Trial Balance, Nov. 30, 1912

1	Cash	673	100
1	C. H. Powers	201.50	50.50
1	Consolidated Furniture Co.	100	215.75
1	Purchases	215.75	
1	Sales	25.50	849.50
		1215.75	1215.75

Illustration No. 10, A Trial Balance of Totals.

EXPLANATION. This Trial Balance was prepared from the ledger in Illustration No. 9. The omission of the account with Walter Rogers explains the statement in § 20 that only the open accounts in the ledger appear on the Trial Balance.

Exercise No. 7, Recording Transactions Direct in the Ledger.

Record on ledger paper* the following transactions performed during the month of October by J. J. Hammond, a retail shoe dealer. Allow space for the accounts as follows: Cash, ten lines; Purchases, ten lines; Sales, ten lines; J. C. Mason, Walter Love, J. C. Miller, Robert Whitacre, W. O. Crosswhite, Davis Bros., and Smith Shoe Co., each four lines. Give each customer and creditor a local street address.

- Oct. 2. Bought shoes from W. O. Crosswhite on account, \$187.65.
 3. Sold J. C. Mason on account one pair of shoes, \$11.50.
 5. Bought shoes from Davis Bros. on account, \$281.36.
 7. Received for cash sales of shoes, \$127.50.
 9. Paid W. O. Crosswhite \$100.00 on account.
 10. Sold Walter Love on account six pairs of shoes, \$56.50.
 11. Bought shoes from the Smith Shoe Company on sixty days' time, \$211.85.
 12. Received for cash sales of shoes, \$97.50.
 13. Paid W. O. Crosswhite \$87.65 in full of account.
 14. Sold J. C. Miller on account two pairs of shoes, \$25.25.
 16. Received for cash sales of shoes, \$106.95.
 17. Allowed Walter Love credit for one pair of shoes returned, \$17.50.
 18. Bought shoes from W. O. Crosswhite on account, \$321.85.
 19. Paid \$82.50 for shoes purchased and delivered today.
 20. Paid Mrs. W. C. Davis \$6.00 for a pair of shoes returned for which she had paid cash at the time they were sold to her.
 23. Received \$39.00 from Walter Love in full of account.
 25. Paid the Smith Shoe Company \$25.00 on account.
 26. Received for cash sales of shoes, \$88.90.
 27. Paid the Santa Fe Railroad \$65.50 for freight on shoes purchased.
 28. Sold Robert Whitacre one pair shoes on account, \$15.00.
 30. Bought shoes from the Smith Shoe Company on sixty days' time, \$175.75.
 31. Davis Bros. allowed us credit for \$62.50 for shoes returned to them.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of totals.

*Exercises Nos. 7 and 8 may be recorded in the journal and posted in the same manner as Nos. 4, 5 and 6 (§30). Unless the instructor requires these exercises journalized, the student will follow the instructions as given. See note at bottom of page 13 in regard to the paper to be used.

Exercise No. 8, Recording Transactions Direct in the Ledger.

Record on ledger paper the following transactions performed by F. B. Bellis, a retail candy merchant, during the week beginning July 5. Allow space for the accounts as follows: Cash, ten lines; Purchases, ten lines; Sales, ten lines; Candy Kitchen, seven lines; Robert Farland, five lines; Norway Candy Co., six lines; R. H. Hunter, five lines. Give each person a local street address.

- July 5. Purchased from the Candy Kitchen, City, on account, \$65.84.
Cash sales for the day, \$62.48.
6. Paid cash for nuts purchased, \$9.50.
Cash sales for the day, \$55.80.
7. Sold Robert Farland, City, on account, six boxes of candy at* \$2.75.
Purchased from the Norway Candy Co., City, on account, \$32.75.
Cash sales for the day, \$41.90.
8. Paid the Candy Kitchen \$50.00 on account.
Paid a customer \$1.00 for a box of candy which he had purchased for cash and returned per agreement.
Cash sales for the day, \$41.80.
9. Received \$10.00 from Robert Farland on account.
Sold R. H. Hunter, City, on account, twelve boxes of candy at* \$2.25.
Purchased from the Candy Kitchen, City, on account, \$61.50.
Cash sales for the day, \$52.80.
10. Paid cash for chewing gum, \$5.00.
Paid the Candy Kitchen \$25.00 on account.
Purchased from the Norway Candy Co., City, on account, \$26.95.
Returned to the Candy Kitchen six boxes of candy purchased on the 9th and received credit at \$1.75 per box, the cost price.
Cash sales for the day, \$101.19.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of balances.

RECORDING TRANSACTIONS IN THE JOURNAL

§ 30. **Transactions** with customers and with creditors may be recorded in the journal in the same manner as cash transactions. When credit is extended to a customer, his name is written in the journal as the account debited, and the Sales account is credited; when credit is extended to the business, the Purchases account is debited, and the name of the creditor is written as the account credited. The owner should have a record of the articles sold on account; this information may be obtained by retaining a copy of the list given the customer, or writing the names of the articles in connection with the explanation in the journal. It is not necessary to itemize the articles purchased in the explanation of the transaction in the journal because the creditor provides a list of these articles.

The following transactions affecting the purchases and sales of merchandise for cash and on account, performed by J. H. Henderson, a retail furniture dealer, during the month of November, are shown recorded in the journal in Illustration No. 11 and posted to the ledger in Illustration No. 12. These transactions are the same as those on page 23.

- Nov. 1. Purchased furniture from the Consolidated Furniture Co., Grand Rapids, on sixty days' time, \$215.75.
2. Sold C. H. Powers, Arlington, on account, one bedroom suite, \$125.00.
6. Sold Walter Rogers, City, on account, one hatrack, \$22.50.

(Concluded on page 28.)

*NOTE. The word "at", appearing before the price, indicates that this price is per unit; if this word does not appear, the price given applies to the quantity mentioned. "Six boxes candy at \$2.75" means that the amount of the sale is \$16.50. "Six boxes candy, \$2.75," means that the amount of the sale is \$2.75.

November 1, 192

Purchases	215.75	
Consolidated Furniture Co.		215.75
Bought furniture on 150 days time		
2		
C. H. Powers	125	
Sales		125
Sold 1 bedroom suite on account		
Walter Rogers	2250	
Sales		2250
Sold 1 hat rack on account		
17		
Cash	625.50	
Sales		625.50
Cash sales of furniture		
14		
Consolidated Furniture Co.	100	
Cash		100
Paid cash to apply on account		
20		
Cash	2250	
Walter Rogers		2250
Received cash in full of account		
25		
Cash	25	
C. H. Powers		25
Received cash to apply on account		
26		
C. H. Powers	76.50	
Sales		76.50
Sold on account 3 rockers at \$25.50		
29		
Sales	25.50	
C. H. Powers		25.50
Allowed credit for one rocker returned		

Illustration No. 11, A Journal Page with Transactions Recorded on It.

EXPLANATION. The numbers in the folio column indicate the page of the ledger to which each entry is posted. These numbers are not entered when the transactions are recorded in the journal, but at the time the amounts are posted to the ledger.

(Continued from page 26.)

- Nov. 12. Received cash for furniture sold today, \$625.50.
 14. Paid the Consolidated Furniture Co. \$100.00 on account.
 20. Received \$22.50 from Walter Rogers in payment for the hatrack sold him on the 6th.
 25. Received \$25.00 from C. H. Powers to apply on account.
 26. Sold C. H. Powers on account three leather rockers at \$25.50 each.
 29. C. H. Powers returned one rocker and was allowed credit for \$25.50.

Cash

¹⁹² Nov. 12		\$1	625 50	¹⁹² Nov. 14		\$1	100
20		\$1	22 50				
25		\$1	25				

*C. H. Powers**Arlington*

¹⁹² Nov. 2		\$1	125	¹⁹² Nov. 25		\$1	25
26		\$1	276 50	29		\$1	25 50

*Walter Rogers**City*

¹⁹² Nov. 6		\$1	22 50	¹⁹² Nov. 20		\$1	22 50
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*Consolidated Furniture Co**Grand Rapids*

¹⁹² Nov. 14		\$1	100	¹⁹² Nov. 1 60 days		\$1	215 75
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Purchases

¹⁹² Nov. 1		\$1	215 75				
--------------------------	--	-----	--------	--	--	--	--

Sales

¹⁹² Nov. 29		\$1	25 50	¹⁹² Nov. 2		\$1	125
				6		\$1	22 50
				12		\$1	625 50
				26		\$1	876 50

Illustration No. 12, A Ledger with Six Accounts Resulting from Posting.

EXPLANATION. The transactions in this ledger were not recorded direct in it, but were recorded in the journal shown in Illustration No. 11 and posted, as indicated by the figures in the folio column of each account. Compare with Illustration No. 9 and note the additional information. A Trial Balance of totals taken from this ledger would be the same as Illustration No. 10.

Exercise No. 9, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed by the Central Paper Co. during the month of February. Give each customer and creditor a local street address.

- Feb. 1. Purchased paper from the Whiting Paper Co. on account, \$350.00.
 2. Sold paper to the Federal Press on account, \$126.50.
 3. Received \$352.10 for paper sold today.
 5. Purchased envelopes from the U. S. Envelope Co. on account, \$207.60.
 6. Received \$126.50 from the Federal Press in full of account.
 7. Sold paper to C. J. Krehbiel & Co. on account, \$200.25.
 9. Paid the Whiting Paper Co. \$150.00 on account.
 12. Purchased paper from the Whitaker Paper Co. on account, \$409.37.
 14. Paid \$106.16 for freight and drayage bills to date.
 16. Sold paper to C. W. Ogden on account, \$98.66.
 19. Received credit from the U. S. Envelope Co. for \$36.50, value of envelopes returned by us per agreement.
 20. Received for cash sales of paper today, \$191.96.
 21. Received \$200.25 from C. J. Krehbiel & Co. in full of account.
 23. Sold paper and envelopes to the Federal Press on account, \$161.52.
 24. Allowed C. W. Ogden credit for paper returned, \$12.50.
 26. Paid the Herrlinger Paper Co. \$76.60 for paper delivered today.
 27. Sold paper and envelopes to C. J. Krehbiel & Co. on account, \$112.60.
 28. Paid the U. S. Envelope Co. balance due on account, \$171.10.
 Received \$40.00 from C. W. Ogden on account.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (9), Purchases (9), Sales (11), Federal Press (5), C. J. Krehbiel & Co. (5), C. W. Ogden (5), Whiting Paper Co. (5), U. S. Envelope Co. (5), Whitaker Paper Co. (5), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of totals.

Exercise No. 10, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of May by J. O. Cutshaw, an automobile tire dealer:

- May 1. Purchased from the Goodyear Tire Co., City, on account, \$355.00.
 3. Received cash for four Goodyear 33 x 4 cord tires, \$215.60.
 5. Purchased from the Goodrich Tire Co., City, on account, \$525.50.
 Sold the Central Grocery Co., City, on account, two Ford tires, \$32.65.
 7. Received cash for one 35 x 5 Silvertown cord tire, \$67.50.
 10. Paid the Goodyear Tire Co. \$200.00 on account.
 12. Sold I. W. Walker, City, on account, four Miller cord tires at \$52.45.
 13. Gave I. W. Walker credit for one of the tires sold him on the 12th and returned by him today per agreement.
 14. Received for cash sales of tires, \$278.50.
 16. Received \$32.65 from the Central Grocery Co. in full of account.
 20. Sold W. L. Watson, City, on account, two 33 x 4 Fisk cord tires at \$48.00; these tires are not carried in stock and were purchased from the Fisk Tire Co., City, on account, at \$36.00.

Record the sale and purchase as separate transactions.

(Concluded on page 30.)

(Exercise No. 10—Continued from page 29.)

- May 25. Sold David Jordan, City, on account, two 32 x 4 Silvertown cord tires at \$41.60 each.
26. Paid the Goodrich Tire Co. \$200.00 on account.
27. Received \$50.00 from W. L. Watson to apply on account.
28. Paid the Fisk Tire Co. \$72.00 in full of account.
Returned to the Goodrich Tire Co. two 32 x 4 fabric tires and received credit for \$34.60.
31. Received for cash sales of tires, \$315.50.
Purchased from the Goodyear Tire Co., City, on account, \$452.40.

When the above transactions have been recorded in the journal as instructed, open accounts on a sheet of ledger paper with Cash (10), Purchases (8), Sales (12), Goodyear Tire Co. (5), Goodrich Tire Co. (4), Fisk Tire Co. (4), Central Grocery Co. (4), I. W. Walker (4), W. L. Watson (4), David Jordan (4), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of balances.

QUESTIONS

1. If a merchant buys merchandise on March 2, 1922, with the privilege of paying for it within sixty days, on what date will he be required to pay the amount?
2. Why is it not necessary to keep an account with the customer to whom the business sells for cash?
3. Is an amount due from a customer one of the assets of the business?
4. Would you consider the asset of the business described as "Accounts Receivable" as valuable as the asset described as "Cash"? Give reasons.
5. Distinguish between the meaning of the terms "creditor" and "customer".
6. Why is it necessary for the bookkeeper to indicate payments made to apply on merchandise purchased or sold on a designated date?
7. Would it be possible for an account with a customer to show a credit balance? Explain.
8. Would it be possible for an account with a creditor to show a debit balance? Explain.
9. Why is it advisable to rule an account receivable or an account payable when the two sides are equal?
10. Open an account with Robert Jones, a customer of the business, and record the following transactions in it:
 - Jan. 10. Sold merchandise on account, \$425.00.
 15. Received \$100.00 to apply on account.
 20. Sold merchandise on account, \$72.50.
 31. Received \$200.00 to apply on sale of the 10th.
 - Feb. 10. Received \$72.50 in full for sale of Jan. 20.
11. Why is it not necessary to show on the Trial Balance an account which is in balance?
12. What effect would it have on the Trial Balance if an account which shows a debit balance of \$10.00 was omitted because it was ruled by mistake?
13. What accounts are affected when the business receives cash from a customer in part payment of his account?
14. What accounts are affected when cash is paid to a creditor to apply on an account owed him?

15. If a sale made to a customer on account was not recorded, would this affect the equality of the debits and credits on the Trial Balance?
16. Can you suggest a plan which would avoid the possibility of failing to record transactions in which merchandise is sold on account?
17. If a sale is made to a customer for cash and the transaction is not recorded, how would the bookkeeper detect the error?
18. If cash is received from a customer in payment of his account, and the transaction is not recorded, how would the bookkeeper detect the error?
19. If merchandise is purchased from a creditor on account and the transaction is not recorded, how would the bookkeeper detect the error?
20. If cash is paid for merchandise purchased and the transaction is not recorded, how would the bookkeeper detect the error?
21. If a sale is made to one customer and by mistake debited to another customer, will this affect the equality of the debits and credits on the Trial Balance?
22. How would the bookkeeper detect the error mentioned in the preceding question?
23. If a customer's account, which is not in balance, is ruled by mistake, how would the bookkeeper discover the error?
24. Why is it advisable to indicate the address of a customer on his account in the ledger?
25. If the two sides of the Trial Balance are not equal, how would the bookkeeper ascertain the error?

Chapter IV

RECORDING TRANSACTIONS—Continued

§ 31. **Expense.** Each business has a building or place in which to carry on its operations; this building or place of business is provided with heat and light; modern business requires the use of the telephone, telegraph, and other means of rapid communication; clerks are employed to assist with the purchasing and selling of the merchandise or service which the business sells; bookkeepers and stenographers are required in connection with the office operations; the owner receives a compensation for his services in connection with the operations of the business; these and many other services must be purchased and paid for by the business. Such services are usually referred to as the "operating cost" of the business, also as the "expenses" of the business.

The term "expenses" also includes any material purchased by the business which will be consumed by its use; this class of material includes books of account for use in the office, stationery, wrapping paper, twine, nails for packing cases, etc. The cost of material regarded as expense is usually shown in an account separate from the amounts paid for services; this will be discussed later in more detail.

A record of the payments for operating cost (expenses) is made in one or more expense accounts, depending on the nature of the expenses and the extent of the business operations. When cash is given in payment for services or property which is regarded as an expense item, the account which is to show a record of this operating cost is debited and the Cash account credited; should an asset other than cash be given in payment, the account which shows the value of the asset parted with is credited instead of the Cash account.

EXPENSE ACCOUNT

§ 32. **The Purpose of this Account** is to show the cost of operating the business, that is, its expenses. If all operating cost is debited to one account, the total cost of the business operations will be shown in this account. The debit and credit given below refer to only one Expense account.

Debit the Expense Account:

¶ 1. For amounts paid for operating cost as outlined in § 31.

Credit the Expense Account:

¶ 2. For any adjustments* which reduce the operating cost as shown by the debit side of this account.

¶ 3. *The Balance of this Account* shows the operating cost of the business for the period covered by the debits and credits to the account. The total expense is a deduction from the profit made by the operations of the business.

§ 33. **Capital.** It is usually necessary for the owner of the business to invest cash or other property at the beginning of the business, because, if the business is

*NOTE. The term "adjustment" used in connection with the credits to the Expense account refers to those transactions which reduce the cost of operating the business. If the cost of stamps is debited to the Expense account, and a part of these stamps is sold, Cash or the asset received is debited, and Expense credited because the amount received reduces the expense cost.

to supply a demand, it must have on hand those things which its customers will wish to purchase. The cash or other property which the owner assigns to the operations of the business at its beginning or at any time subsequent thereto is regarded as an investment in the business and referred to as the "invested capital of the business". If the operations of the business are successful—that is, if the costs are less than the income—the interest of the owner (proprietorship) will be increased by this profit; if the result of operating the business is a loss, the interest of the owner (proprietorship) will be decreased by this loss. Once each year it is necessary for the owner of the business to ascertain the profit or loss resulting from the operations of the business during the year because of the governmental tax on income. If the business has been operated at a profit, the owner's capital is increased the amount of this profit unless he withdraws a part or all of it.

The owner may, if he desires, withdraw part of his capital; the withdrawal of a part of his capital will decrease his proprietorship in the business. Should the owner take cash, merchandise or other assets from the business as a remuneration for his services in connection with the operations of the business, the value of these withdrawals is debited to Expense in the same manner as amounts paid for the salaries of clerks and other employees. If desired, the owner may be debited for the value of the property which he takes from the business and credited with the salary he is to receive as compensation; the title of this account would be the name of the owner with the word "personal" written after it. The owner's personal account is debited with withdrawals and credited with the salary; the balance, if a debit, will show the amount he has withdrawn in excess of his salary and, if a credit, the amount of salary yet to be withdrawn. Under no circumstances should withdrawals for services be debited to the Capital account.

CAPITAL ACCOUNT

§ 34. **The Purpose of this Account** is to show the result of transactions which the business has with the owner of the business as they relate to investments and withdrawals.

Debit the Capital Account:

- ¶ 1. For debts of the owner assumed at the beginning of the business.
- ¶ 2. For amounts withdrawn from the capital invested.
- ¶ 3. For the net loss at the end of the business year.

Credit the Capital Account:

- ¶ 4. For cash or other assets invested at the beginning of the business.
- ¶ 5. For subsequent investments.
- ¶ 6. For the net profit at the end of the business year.

¶ 7. *The Balance of this Account* shows the owner's interest in the business, that is, his proprietorship or net investment.

RECORDING TRANSACTIONS DIRECT IN THE LEDGER

§ 35. **The Complete Operations** of a business include transactions which relate to the investment at the beginning of the business, the purchases and sales of merchandise, and the payment of operating expenses. All of these transactions may be recorded direct in the ledger as explained in §§ 19 and 29.

The following transactions relative to the complete operations of a business (including investment, operating cost, and purchases and sales of merchandise for

* (Concluded on page 35.)

RECORDING TRANSACTIONS IN THE LEDGER.

Cash

192	Oct. 1		1000	192	Oct. 24		200
	10	125.50	1075.50		31		50
							2.50
			<i>E. B. Moore</i>				
			305 Elm St., City				
192	Oct. 18		75				
			<i>J. W. Macon</i>				
			222 Main St., City				
192	Oct. 28		127.50				
			<i>A. R. King</i>				
			Clinton				
192	Oct. 24		200	192	Oct. 7	11765	317.65
			<i>M. E. Studebaker Capital</i>				
				192	Oct. 1		1000
			<i>Sales</i>				
				192	Oct. 10		75.50
					18		75
					28		127.50
							278.00
			<i>Purchases</i>				
192	Oct. 7		317.65				
			<i>Expense</i>				
192	Oct. 31		50				

Illustration No. 13, A Ledger with Eight Accounts.

EXPLANATION. This ledger contains a record of the transactions outlined in § 35, recorded direct in the ledger. It is the same as Illustrations No. 3 and No. 9 with the addition of accounts with the owner and Expense. Whether only a part or all of the transactions in connection with the operations of a business are recorded, each transaction affects two accounts, one showing the value received recorded on the debit side and the other the value parted with recorded on the credit side. The same amount in each transaction is recorded on the debit side of one account and on the credit side of another account.

cash and on account), performed by M. E. Studebaker during the month of October, are shown recorded direct in accounts with Cash, customers, creditors, Capital, Sales, Purchases, and Expense in Illustration No. 13. A Trial Balance of balances made from these accounts is shown in Illustration No. 14.

- Oct. 1. M. E. Studebaker invested \$1,000.00 in the office supplies business.
 7. Purchased from A. R. King, Clinton, on account, merchandise, \$317.65.
 10. Received \$75.50 for cash sales of merchandise.
 18. Sold E. B. Moore, 305 Elm St., City, on account, one desk, \$75.00.
 24. Paid A. R. King \$200.00 on account.
 28. Sold J. W. Macon, 222 Main St., City, on account, three files, \$127.50.
 31. Paid rent of store, \$50.00.

M. E. Studebaker
Trial Balance, October 31, 192

Cash	825.50	
E. B. Moore	75	
J. W. Macon	127.50	
A. R. King		117.65
M. E. Studebaker, Capital		1000
Sales		278
Purchases	317.65	
Expense	50	
	1395.65	1395.65

Illustration No. 14, A Trial Balance of Balances Made from the Ledger Accounts in Illustration No. 13.

Exercise No. 11, Recording Transactions Direct in the Ledger.

Record on ledger * paper the following transactions performed during the first half of May by R. H. Gillespie, a retail clothing dealer. Allow space for the accounts as follows: Cash, eight lines; Purchases, nine lines; Sales, eight lines; Expense, six lines; R. H. Gillespie, Capital, five lines; A. C. Dugan, A. R. Isaacs, Charles Heaney, Davis Bros., Globe Clothing Co., and Pope Clothing Co., each four lines. Give each customer and creditor a local address.

- May 1. R. H. Gillespie invested \$2,500.00 in the retail clothing business.
 2. Bought of Davis Bros., on account, merchandise, \$318.67.
 Bought of Brand Bros., for cash, merchandise, \$362.55.
 3. Bought of the Globe Clothing Co., on account, merchandise, \$196.50.
 Sold A. C. Dugan, on account, one suit of clothes, \$65.00.
 4. Bought of Brand Bros., for cash, merchandise, \$318.62.
 5. Sold for cash one suit of clothes, \$65.00; one spring overcoat, \$50.00.
 6. Sold A. R. Isaacs, on account, one suit, \$60.00; five shirts at \$2.50.
 9. Paid the Globe Clothing Co. \$196.50 in full of account.
 Sold Charles Heaney, on account, one suit, \$50.00; one vest, \$10.00.

(Concluded on page 36.)

*Exercises Nos. 11 and 12 may be recorded in the journal and posted in the same manner as Exercises Nos. 9 and 10 (§30). Unless the instructor requires these exercises journalized, the student will record them in the ledger as directed.

(Exercise No. 11—Continued from page 35.)

- May 10. Bought of the Pope Clothing Co., on account, merchandise, \$269.96.
Sold A. C. Dugan, on account, one spring overcoat, \$85.00; six ties at \$1.25 each.
11. Received \$60.00 from Charles Heaney in full of account.
12. Bought of Brand Bros., for cash, merchandise, \$327.16.
13. Paid \$12.00 for telephone service.
14. Received \$25.00 from A. R. Isaacs in part payment of the merchandise sold him on the 6th.
15. Bought of Davis Bros., on account, merchandise, \$105.81.
Paid rent, \$80.00; salaries of clerks, \$75.00.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of balances.

Exercise No. 12, Recording Transactions Direct in the Ledger.

Record on ledger paper the following transactions performed during the month of May by W. L. Kirby, a retail paint merchant. Allow space for the accounts as follows: Cash, eight lines; Purchases, nine lines; Sales, ten lines; Expense, four lines; W. L. Kirby, Capital, Jones Bros., Cowan Bros., W. L. Luttrell, and W. H. Howland, each four lines; C. A. Norman, five lines; National Paint Co., and Marcus Franklin, each four lines.

- May 1. W. L. Kirby invested \$2,500.00 in the retail paint business.
Bought of Jones Bros., Uniontown, on account, merchandise, \$221.35.
Paid one month's rent in advance, \$75.00.
2. Bought of Cowan Bros., City, ten days, merchandise, \$86.49.
Sold W. L. Luttrell, City, on account, merchandise per Sale No. 1, \$42.50. The sale number indicates that a copy of the list of items sold has been retained.
4. Paid the National Paint Co., New York, cash for merchandise delivered today, \$798.57.
5. Sold W. H. Howland, Middletown, on account, per Sale No. 2, \$75.80.
Received for cash sales of merchandise, \$110.00.
7. Paid Cowan Bros. \$86.49 in full of account.
Sold C. A. Norman, City, on account, merchandise per Sale No. 3, \$87.50.
9. Bought of National Paint Co., New York, twenty days, merchandise, \$171.58.
10. Sold W. L. Luttrell, City, on account, merchandise per Sale No. 4, \$78.75.
11. Received \$50.00 from C. A. Norman to apply on account.
12. Bought of Cowan Bros., City, on account, merchandise, \$93.25.
14. Received \$75.80 from W. H. Howland in full of account.
16. Bought of Marcus Franklin, Ardmore, five days, merchandise, \$218.32.
17. Bought of Jones Bros., Uniontown, on account, merchandise, \$172.50.
18. Paid Marcus Franklin \$218.32 in full of account.
Sold W. H. Howland, Middletown, on account, merchandise per Sale No. 5, \$88.50.
19. Sold C. A. Norman, City, on account, merchandise per sale No. 6, \$32.45.
21. Received \$30.00 from W. L. Luttrell to apply on account.

(Concluded on page 37.)

(Exercise No. 12—Continued from page 36.)

- May 21. Sold C. O. Bailey, for cash, 20 gallons I. X. L. paint at \$4.75, \$95.00.
 24. Paid Jones Bros. \$100.00 to apply on account.
 C. A. Norman returned one gallon paint purchased from us on the 19th and was granted credit for \$3.00. He paid cash, \$29.45, for the balance due on this sale.
 Enter as two separate transactions.
 26. Gave a customer \$2.00 in payment for paint purchased from us for cash and returned per agreement.
 29. Paid the National Paint Co. \$171.58 in full of account.
 C. O. Bailey returned 2 gallons I. X. L. paint purchased on the 21st and accepted in exchange for it 4 gallons varnish.
 No entry is required. Why?
 31. Received credit from Jones Bros. for \$12.00, value of 3 gallons paint purchased on the 17th and returned by us per agreement.

When these transactions have been recorded in the accounts, prove the equality of the debits and credits by a Trial Balance of balances.

RECORDING TRANSACTIONS IN THE JOURNAL

§ 36. **Transactions** with the owner and with operating expenses may be recorded in the journal in the same manner as transactions in which merchandise is purchased or sold for cash or on account. When the owner invests cash or other assets in the business, the transaction is recorded in the journal by writing the date, the name of the account debited and the amount, the name of the account credited and the amount, and the explanation, in the same form as other transactions; each asset invested is debited to the account which is to show its value, and the owner's Capital account is credited. When the owner withdraws a part of his capital, the transaction is recorded in the journal in the same form as the entry for investment; in this case, however, the owner's Capital account is debited with the amount of the withdrawal, and the account which shows the value of the asset withdrawn is credited. When operating costs are paid, the transaction is recorded in the journal by writing the date, the name of the operating account affected (usually Expense) and the amount of the payment, the name and amount of the asset parted with, and the explanation.

Before recording transactions in the journal, the student should journalize each one mentally; that is, he should determine from the nature of the transaction the account to be debited and the account to be credited. Since the information the owner desires is obtained from the accounts, it is essential that the proper accounts be debited and credited in each transaction. Thus if M. E. Studebaker, the proprietor of the business, withdraws from the business \$1,000.00 during the year, as salary, and the bookkeeper debits M. E. Studebaker Capital instead of Expense, the report which Mr. Studebaker receives from his bookkeeper at the end of the year would show \$1,000.00 less expenses than have really been paid.

The following transactions relative to the complete operations of a business (including investment, operating cost, and the purchases and sales of merchandise for cash and on account), performed by M. E. Studebaker during the month of October, are shown recorded in the journal in Illustration No. 15 and posted to the ledger in Illustration No. 16. These transactions are the same as those at the top of page 35.

- Oct. 1. M. E. Studebaker invested \$1,000.00 in the office supplies business.
 7. Purchased from A. R. King, Clinton, on account, merchandise, \$317.65.
 10. Received \$75.50 for cash sales of merchandise.

(Concluded on page 38.)

October 1, 192

1	Cash	1000	
1	M. E. Studebaker Capital		1000
	Invested in the office supplies business		
	7		
1	Purchases	317 65	
1	A. R. King		317 65
	Bought merchandise on account		
	10		
1	Cash	75 50	
1	Sales		75 50
	Sold merchandise for cash		
	18		
1	E. B. Moore	75	
1	Sales		75
	Sold one desk on account		
	24		
1	A. R. King	200	
1	Cash		200
	Paid cash to apply on account		
	28		
1	J. W. Macon	127 50	
1	Sales		127 50
	Sold three filing sections on account		
	31		
1	Expense	50	
1	Cash		50
	Paid rent of store		

Illustration No. 15, A Journal Page with Transactions Recorded on It.

EXPLANATION. The transactions recorded in this illustration are given at the bottom of pages 37 and 38. The method of recording is the same as in Illustrations Nos. 7 and 11. The transactions are the same as those recorded direct in the ledger in Illustration No. 13.

(Continued from page 37.)

- Oct. 18. Sold E. B. Moore, 305 Elm St., City, on account, one desk, \$75.00.
 24. Paid A. R. King \$200.00 on account.
 28. Sold J. W. Macon, 222 Main St., City, on account, three files, \$127.50.
 31. Paid rent of store, \$50.00.

Exercise No. 13, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of January by E. B. Taylor, a retail grocer:

- Jan. 1. E. B. Taylor invested \$1,000.00 in the retail grocery business.
 2. Bought of E. C. Cline, Chicago, on account, merchandise, \$77.30.
 3. Bought of Langley Bros., City, thirty days, merchandise, \$134.95.
 4. Paid \$20.00, city and state license for one year.
 6. Sold A. R. Manley, 106 Elm St., City, on account, 40 lbs. Arbuckle coffee at 20c; 1 bbl. White Lily flour, \$6.25.
- When the sale includes more than one item, the explanation in the journal should be as follows:
 Sold on account:
 40 lbs. Arbuckle Coffee at 20c, \$8.00.
 1 bbl. White Lily Flour 6.25.
10. Paid J. F. Sherwood \$192.00 for merchandise purchased today.
 12. Received \$30.50 for sundry cash sales.
 13. Paid E. C. Cline \$77.30 in full of account.
 16. Sold Gibson Hotel, 12 E. 4th St., City, ten days, 6 bbls. Roller King flour at \$5.10; 3 bbls. White Lily flour at \$6.25; 40 lbs. Arbuckle coffee at 20c.
 17. Sold T. L. Staples, Clinton, sixty days, 4 bbls. Roller King flour at \$5.10; 4 cans, 200 lbs., lard at 15c.
 20. Received \$10.00 from A. R. Manley to apply on account.
 23. Bought of Logan & Moseley, Centerville, twenty days, merchandise, \$228.60.
 26. Sold A. R. Manley, 106 Elm St., City, on account, 5 bbls. White Lily flour at \$6.25; 115 lbs. Arbuckle coffee at 20c.
 27. Received \$30.50 from the Gibson Hotel to apply on account.
 30. Received \$41.85 for sundry cash sales.

When the above transactions have been recorded in the journal as instructed open accounts in the ledger with Cash (9), Purchases (8), Sales (10), Expense (5), E. B. Taylor, Capital (5), E. C. Cline (4), Langley Bros. (4), A. R. Manley (4), Gibson Hotel (4), T. L. Staples (4), Logan & Moseley (4), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of totals.

Exercise No. 14, Recording Transactions in the Journal and Posting.

Record on journal paper the following transactions performed during the month of July by E. H. Weatherby, a retail grocer:

- July 1. E. H. Weatherby invested \$1,500.00 in the retail grocery business.
 2. Bought from Woodward Bros., Morgantown, on account, merchandise, \$127.60.
 3. Bought from Winters & Gay, Batesville, on thirty days' time, merchandise, \$204.05.
 Paid \$20.00 cash for city and state license.
 5. Sold J. A. Taylor, 22 Poplar St., on account, 25 lbs. roasted coffee at 33c; 50 lbs. granulated sugar at 7c; 60 lbs. bacon at 23c.
 Bought from Chafin & Jones, City, for cash, merchandise, \$242.00.
 6. Received \$22.50 for sundry cash sales to date.
 Paid Woodward Bros. \$127.60 in full of account.

(Concluded on page 41.)

(Exercise No. 14—Continued from page 40.)

- July 8. Sold the Colonial Hotel, Washington Ave., on account, 5 bbls. Blue Ribbon flour at \$9.10; 3 bbls. White Rose flour at \$9.75; 90 lbs. granulated sugar at 7c.
9. Received \$15.00 from J. A. Taylor to apply on account.
10. Bought from Winters & Gay, Batesville, on thirty days' time, merchandise, \$209.58.
12. Received \$40.00 from the Colonial Hotel in part payment for merchandise sold on the 8th.
13. Paid Winters & Gay \$100.00 to apply on purchase of the 3d.
Sold M. J. Sanders, 227 Beech St., on account, 5 bbls. White Rose flour at \$9.75; 10 hams, 191 lbs., at 26c.
15. Bought from Woodward Bros., Morgantown, on account, merchandise, \$216.37.
16. Sold the Colonial Hotel, Washington Ave., on account, 7 doz. cans peaches at \$1.75 per doz.; 2,000 lbs. bran at \$16.25 per 1,000 lbs.
17. Bought from the Perfection Creamery, Rosedale, on twenty days' time, merchandise, \$34.45.
18. Received \$30.00 from M. J. Sanders to apply on account.
Bought from Chafin & Jones, City, for cash, merchandise, \$116.60.
19. Sold W. W. Johnston, 1221 Elm St., on account, 2,000 lbs. bran at \$16.25 per 1,000 lbs.; 200 lbs. lard at 22c; 3 doz. cans peaches at \$1.60 per doz. cans.
20. Paid Winters & Gay \$104.05, balance due on purchase of the 3d.
Received \$52.50 for sundry cash sales to date.
22. Sold W. W. Johnston, 1221 Elm St., on account, 100 lbs. granulated sugar at 7c; 10 bbls. White Rose flour at \$9.75.
23. Bought from the Perfection Creamery, Rosedale, on twenty days' time, merchandise, \$167.55.
24. Received \$50.00 from the Colonial Hotel in full for balance due on sale of the 8th, and on account of sale of the 16th.
Paid Winters & Gay \$200.00 on account of purchase of the 10th.
26. Received \$10.55 from J. A. Taylor in payment for balance due on merchandise sold him on the 5th.
Sold L. S. Lynn, 915 Jefferson Ave., on account, 5 bbls. White Rose flour at \$9.75; 10 lbs. creamery butter at 42c.
29. Received \$40.00 from L. S. Lynn to apply on account.
Paid Woodward Bros. \$200.00 on account of purchase of the 15th.
31. Paid bookkeeper's salary, \$60.00; rent, \$50.00; telephone service, \$10.00.

When the above transactions have been recorded in the journal as instructed, open accounts in the ledger with Cash (13), J. A. Taylor (6), Colonial Hotel (8), M. J. Sanders (5), W. W. Johnston (6), L. S. Lynn (5), Woodward Bros. (6), Winters & Gay (8), Perfection Creamery (6), E. H. Weatherby, Capital (5), Sales (13), Purchases (12), Expense (6), allowing for each account the number of lines indicated; post the transactions, and prove the posting by a Trial Balance of balances.

QUESTIONS

1. Name some of the necessary expenses of a grocery business.
2. Can you suggest a plan which would permit the grocer to know the cost of delivering merchandise?
3. What accounts are affected when cash is paid for telephone service?
4. What effect would it have on the operating cost of the business if the salary paid the owner for his services in connection with the business were debited to his Capital account?
5. Name the account debited and the account credited when merchandise is invested at the beginning of business.
6. What accounts are affected when cash and merchandise are invested at the beginning of business?
7. What must the owner of a business take into consideration when he fixes the selling price of the merchandise which the business offers for sale?
8. Name some of the expenses in connection with the operation of a railroad.
9. If a farmer shows all of his operating cost in one account, name some of the expenses which would be debited to this account.
10. If a merchant pays \$25.00 for drayage on merchandise he has purchased, would this be debited to the Expense or the Purchases account? Give reasons for your answer.
11. What accounts are affected when the owner withdraws a part of his capital?
12. Name the account debited and the account credited when the owner invests cash in the business at a time other than the beginning of the business.
13. If a telephone company pays \$2000.00 for wire used in connection with the service rendered its customers, will this be debited to the Expense account?
14. If a railroad company pays \$8,000.00 for a new engine, will this be debited to the Expense account?
15. What accounts are affected when stamps, debited to Expense when purchased, are used for parcel post on a package containing merchandise sold a customer on account, with the agreement that he is to pay the postage?
16. Name the account debited and the account credited if the sale mentioned in the preceding question had been made for cash and the customer had given the business cash for the merchandise and stamps.
17. If Robert A. Clark, the owner of a business, is to receive a salary of \$200.00 a month for his services rendered to the business and this is withdrawn at different times, what would be the name of the account kept with the transactions affecting this salary?
18. What accounts would be affected when the entry was made at the end of the month for the \$200.00 salary (§ 33, page 33)?
19. Name the account debited and the account credited if Mr. Clark accepted merchandise from stock at cost price in payment for a part of his salary.
20. What accounts would be affected if Mr. Clark accepted merchandise from stock at the selling price in payment for a part of his salary?
21. What entry would be required if one customer was debited with merchandise purchased by another customer?
22. Name some of the transactions which might occur in connection with the complete operations of a hardware business.
23. Name some of the transactions which might occur in connection with the complete operations of a plumbing business.
24. Under what circumstances would you advise the keeping of more than one account with the expenses of a business?
25. Name some of the transactions which might be performed in connection with the operations of a dairy.

Chapter V

RECORDING TRANSACTIONS—Concluded

§ 37. Special Journals. While all transactions may be recorded in the journal as explained in § 22, yet it is not customary to do this because efficiency in bookkeeping means the greatest amount of work with the best results at the least cost. When a number of transactions affect the same account, much time can be saved by recording them in special journals. Fifty purchases during one month recorded in the journal would require writing "Purchases" fifty times and posting fifty separate amounts to the Purchases account. In addition to the extra time required in recording the transactions and posting, fifty lines would be needed in the ledger for the Purchases account. If these transactions were recorded in a journal and no other transactions were recorded in this journal, it would not be necessary to write "Purchases" in each transaction and the total could be posted to the Purchases account in one amount at the end of the month, thus saving practically half the time in the recording and posting of these transactions. In addition to the time saved in posting, forty-nine lines would be saved in the ledger as a result of posting the total purchases in one amount.

In a mercantile business the transactions which are of the most frequent occurrence are those in connection with the purchase and sale of merchandise and the receipt and payment of cash. If these transactions are recorded in special journals, the work in the accounting department will be much more efficient, and, where the volume of business is large and more than one bookkeeper is needed, the several bookkeepers can use the different journals without interfering with the work of each other.

The title of any special journal is usually the name of the account affected by posting the total at the end of the month. Thus, the journal in which purchases are recorded is usually referred to as the purchases journal because the Purchases account will be debited with the total, and the journal in which sales are recorded is referred to as the sales journal because the Sales account will be credited with the total.

§ 38. The Purchases Journal is a book of original entry in which all purchases of merchandise on account are recorded and no other transactions are recorded in it. The complete record of a transaction in which merchandise is purchased includes the date of entry, the name and address of the person or firm from whom the merchandise is purchased, the terms, the number of the purchase and the amount of the purchase. The ruling in the purchases journal should be so arranged that all this information can be recorded on one line. When arranged in this manner, each person or firm from whom merchandise is purchased can be credited in his account in the ledger, and the Purchases account debited for the total at the end of the month. Illustration No. 17 shows one form of the purchases journal.

If cash purchases are recorded in the cash book (§ 43), it is not necessary to record them in the purchases journal. This is explained further in connection with the discussion of the cash book.

The following purchases of merchandise made by E. B. Taylor, a retail grocer, during the month of January, are shown recorded in the purchases journal in Illustration No. 17:

- Jan. 2. Bought of E. C. Cline, Chicago, on account, merchandise, \$77.30.
 3. Bought of Langley Bros. City, on thirty days' time, merchandise,
 \$134.95.
 23. Bought of Logan & Moseley, Centerville, on twenty days' time, merchandise, \$228.60.

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Date	L.F.	Account Credited	Address	Terms	Pur. No.	Amount
2		<i>E. C. Cline</i>	<i>Chicago</i>	<i>On acct</i>	1	77.30
3		<i>Langley Bros</i>	<i>City</i>	<i>30 days</i>	2	134.95
23		<i>Logan + Moseley</i>	<i>Centerville</i>	<i>20 days</i>	3	228.60
31		<i>Purchases Dr - Total</i>				440.85

Illustration No. 17, Purchases Journal.

EXPLANATION. Each transaction is recorded on one horizontal line. The information in the "Pur. No." column refers to the list of merchandise (invoice) sent by the seller to the purchaser; this list is filed for future reference. The entire record in this illustration is equivalent to one journal entry in which the Purchases account is debited and three personal accounts credited.

§ 39. **Posting from the Purchases Journal.** The accounts affected by each transaction recorded in the purchases journal are Purchases (debit) and the account of the person or firm (credit); for this reason, each amount entered in the
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		<i>E. C. Cline</i>	<i>Chicago</i>			
		<i>192</i>	<i>Jan. 2</i>	<i>On acct</i>	<i>P. 1</i>	<i>77.30</i>
		<i>Langley Bros</i>	<i>City</i>			
		<i>192</i>	<i>Jan. 3</i>	<i>30 days</i>	<i>P. 2</i>	<i>134.95</i>
		<i>Logan + Moseley</i>	<i>Centerville</i>			
		<i>192</i>	<i>Jan. 23</i>	<i>20 days</i>	<i>P. 3</i>	<i>228.60</i>
		<i>Purchases</i>				
<i>192</i>	<i>Jan. 31</i>	<i>P. 1</i>	<i>440.85</i>			

Illustration No. 18, Ledger Resulting from Posting Illustration No. 17.

EXPLANATION. A Trial Balance from this ledger will show that the debit amount is equal to the credit amounts even though the record in the accounts does not represent all of the transactions that the business would perform. One purpose of this illustration is to show that the ledger is in balance when all the transactions from any one journal have been posted.

money column is posted to the credit of the account written on the same line with it, and the Purchases account is debited at the end of the month with the total. The posting is the same as in the journal, except that the amounts debited to Purchases are grouped and posted at one time; the posting to the accounts with creditors should be daily, and the posting of the total to the Purchases account, monthly. The date, the letter "P" and the page of the purchases journal are entered in the ledger; the letter "P" indicates the title of the book of original entry. If a specific time of payment is stated, this should be written in the explanation column of the ledger as explained in Illustration No. 1. The page of the ledger is written in the ledger folio (L. F.) column of the purchases journal to indicate where the entry has been posted.

The posting of the transactions recorded in the purchases journal, Illustration No. 17, is shown in Illustration No. 18.

Exercise No. 15, Recording Transactions in the Purchases Journal.

Record in the purchases journal (paper ruled similar to Illustration No. 17) the following transactions relative to the purchase of merchandise during the month of February by W. O. Gardner, who is engaged in the hardware business:

- Feb. 1. B. A. Ames, Toledo, 30 days, Purchase No. 1, \$350.00.
 5. H. M. Lowe, Nashville, Feb. 3, 30 days, Purchase No. 2, \$325.00.
 In this purchase the merchandise was shipped Feb. 3 and received Feb. 5; the amount is due 30 days from Feb. 3.
 9. H. T. Harris, Rochester, 20 days, Purchase No. 3, \$486.00.
 12. J. T. Goodrich, City, Feb. 10, 90 days, Purchase No. 4, \$825.00.
 18. J. P. Benson, Cleveland, Feb. 17, 60 days, Purchase No. 5, \$64.00.
 23. C. O. Parsons, City, 30 days, Purchase No. 6, \$128.00.
 28. H. L. Simpson, Dayton, Feb. 26, 30 days, Purchase No. 7, \$242.00.

When the above transactions have been recorded in the purchases journal as instructed, and the purchases journal ruled as in Illustration No. 17, open accounts on a sheet of ledger paper with Purchases and each of the seven creditors, allowing four lines for each account. When the posting has been completed, prove the equality of the debits and credits by a Trial Balance.

Exercise No. 16, Recording Transactions in the Purchases Journal.

Record in the purchases journal the following transactions relative to the purchase of merchandise during the month of January by H. H. Goodman, a retail grocer:

- Jan. 2. Brown & Co., Elmwood, on account, Purchase No. 1, \$77.30.
 3. Knox Bros., City, on account, Purchase No. 2, \$134.95.
 10. Hazen & Lockhart, Danville, on account, Purchase No. 3, \$228.60.
 15. Brown & Co., Elmwood, on account, Purchase No. 4, \$226.00.
 17. Lake View Creamery, Lake View, Jan. 14, 20 days, Purchase No. 5, \$28.00.
 23. J. Allen Smith & Co., Rockford, 10 days, Purchase No. 6, \$197.10.
 27. Donaldson Bros., City, Jan. 24, on account, Purchase No. 7, \$172.75.

When the above transactions have been recorded in the purchases journal as instructed, and the purchases journal ruled, open accounts on a sheet of ledger paper with Purchases and each of the six creditors, allowing five lines for Brown & Co. and four lines for each of the other accounts. When the posting has been completed, prove the equality of the debits and credits by a Trial Balance.

After the instructor has approved this exercise, retain the purchases journal only for use in connection with Exercise No. 22.

Exercise No. 17, Recording Transactions in the Purchases Journal.

Record in the purchases journal the following transactions relative to the purchase of merchandise during the month of March by C. U. Steele, a retail shoe dealer:

- Mar. 2. Bay State Shoe Co., Boston, Feb. 28, 10 days, Purchase No. 1, \$496.81.
 3. Haynes, Henson & Co., Newark, N. J., Mar. 2, 10 days, Purchase No. 2, \$387.65.
 4. M. B. Lang, City, Mar. 3, 30 days, Purchase No. 3, \$1,691.42.
 6. Cline Shoe Co., Pittsburgh, Mar. 4, 30 days, Purchase No. 4, \$168.42.
 18. Bay State Shoe Co., Boston, Mar. 15, 30 days, Purchase No. 5, \$987.35.
 25. Haynes, Henson & Co., Newark, N. J., Mar. 20, 30 days, Purchase No. 6, \$462.85.
 26. Cline Shoe Co., Pittsburgh, Mar. 20, 30 days, Purchase No. 7, \$785.00.
 31. A. O. Haines, Albany, Mar. 21, 60 days, Purchase No. 8, \$432.50;
 M. B. Lang, City, Mar. 22, 30 days, Purchase No. 9, \$356.00.

When the above transactions have been recorded in the purchases journal as instructed, and the purchases journal ruled, open an account with Purchases at the top of page 1 of a double sheet of ledger paper, and an account with each of the five creditors on page 2 of the same sheet, allowing equal space for each personal account; prove the equality of the debits and credits by a Trial Balance.

If double ledger paper ruled with from thirty to forty horizontal lines on each page can not be obtained, use any ledger paper available and allow five lines for each account.

After the instructor has approved this exercise, retain the ledger sheet only for use in Exercises Nos. 20 and 23.

§ 40. The Sales Journal is a book of original entry in which all sales of merchandise on account are recorded and no other transactions are recorded in it. The complete record of a transaction in which merchandise is sold on account includes the date of the sale, the name and address of the person or firm to whom the merchandise is sold, the terms, a list of the items sold, and the amount of the sale. It is necessary for the seller to retain a record of the items sold a customer on account because this information will be needed in case adjustments are required. If a customer returns merchandise which he claims was purchased from the seller and the seller has no record of the items sold to this customer, he might be imposed on by allowing credit for merchandise which was not purchased from him.

Illustration No. 19 shows a form of sales journal containing a list of the items sold, and Illustration No. 20 the same sales recorded in a sales journal with the list of items indicated by the sale number. The method shown in Illustration No. 20 is more efficient because it requires less time to record a number than a list of articles sold. The other form is shown because it is used by some business concerns.

If cash sales are recorded in the cash book (§ 43), it is not necessary to record them in the sales journal. This is explained further in connection with the discussion of the cash book.

The following sales made by E. B. Taylor, a retail grocer, during the month of January, are shown recorded in the sales journals in Illustrations Nos. 19 and 20.

- Jan. 6. Sold A. R. Manley, 106 Elm St., City, on account, 40 lbs. Arbuckle coffee at 20c; 1 bbl. White Lily flour, \$6.25.
 16. Sold Gibson Hotel, 12 E. 4th St., City, on ten days' time, 6 bbls. Roller King flour at \$5.10; 3 bbls. White Lily flour at \$6.25; 40 lbs. Arbuckle coffee at 20c.
 17. Sold T. L. Staples, Clinton, on sixty days' time, 4 bbls. Roller King flour at \$5.10; 4 cans, 200 lbs., lard at 15c.
 26. Sold A. R. Manley, 106 Elm St., City, on account, 5 bbls. White Lily flour at \$6.25; 115 lbs. Arbuckle coffee at 20c.

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1	A. R. Manley	106 Elm St. City			1425
	40 lbs. Arbuckle Coffee	.20	8		
	1 bbl. White Lily Flour		625		
		16			
1	Gibson Hotel	12 E. 4 th St. City			5735
	6 bbls. Roller King Flour	5.10	3060		
	3 " White Lily Flour	6.25	1875		
	40 lbs. Arbuckle Coffee	.20	8		
		17			
1	T. L. Staples	Clinton			5040
	4 bbls. Roller King Flour	5.10	2040		
	4 cans, 200 lbs. Lard	.15	30		
		26			
1	A. R. Manley	106 Elm St. City			5425
	5 bbls. White Lily Flour	6.25	3125		
	115 lbs. Arbuckle Coffee	.20	23		
				17625	
1	Sales Cr. - Total				17625

Illustration No. 19, Sales Journal Containing a List of Items Sold.

EXPLANATION. The transactions recorded in this sales journal are equivalent to a journal entry in which four accounts are debited, each for the amount written on the same line with it, and the Sales account credited for the total. Each entry shows the date, the name and address of the customer, the total amount of the sale, and a list of the items sold.

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Date	L. F.	Account Debited	Address	Terms	Sale No.	Amount
6	1	A. R. Manley	106 Elm St. City	On acct.	1	1425
16	1	Gibson Hotel	12 E. 4 th St. City	30 days	2	5735
17	1	T. L. Staples	Clinton	60 days	3	5040
26	1	A. R. Manley	106 Elm St. City	On acct.	4	5425
31	1	Sales Cr. - Total				17625

Illustration No. 20, Sales Journal Without a List of Items Sold.

EXPLANATION. The above facts are the same as those in Illustration No. 19, except the articles are not itemized. Information concerning these is obtained from a copy of the sale (sales ticket).

§ 41. **Posting from the Sales Journal.** The accounts affected by each transaction recorded in the sales journal are the customer (debit) and Sales (credit); for this reason each amount written on the line with the name of the customer is posted to the debit of his account, and the Sales account is credited with the total at the end of the month. The posting of the amounts to accounts with customers is daily, and the total to the Sales account, monthly. The date, the letter "S" and the page of the sales journal are entered in the ledger; the letter "S" indicates the title of the book of original entry. If a specific time of payment is stated, this should be written in the explanation column of the ledger as explained in Illustration No. 1. The page of the ledger is written in the ledger folio (L. F.) column of the sales journal to indicate where the entry has been posted.

The posting of the transactions recorded in the sales journal, Illustration No. 19 or No. 20, is shown in Illustration No. 21.

<i>A. R. Manley</i> <i>106 Elm. St. City.</i>									
¹⁹²	Jan.	6	On acct.	\$1	1425				
		26	"	\$1	5425				
<i>Gibson Hotel</i> <i>12 E. 4th St. City.</i>									
¹⁹²	Jan.	16	30 days	\$1	5735				
<i>T. L. Staples</i> <i>Clinton</i>									
¹⁹²	Jan.	17	60 days	\$1	5040				
<i>Sales</i>									
						¹⁹² Jan. 31	\$1	17625	

Illustration No. 21, Ledger Resulting from Posting Illustration No. 19 or No. 20.

EXPLANATION. The same explanation applies here as that given in connection with the ledger resulting from posting the transactions from the purchases journal, Illustration No. 18.

Exercise No. 18, Recording Transactions in the Sales Journal.

Record in the sales journal (paper ruled similar to Illustration No. 20) the following transactions relative to the sale of merchandise on account during the month of February by W. J. Wheeler, a retail merchant:

- Feb. 3. E. M. Miller, 507 Gay St., Sale No. 1, \$25.50.
8. William A. Wallace, Evanston, Sale No. 2, \$14.50.

(Concluded on page 49.)

(Exercise No. 18—Continued from page 48.)

- Feb. 12. B. T. Hart & Co., Maryville, Sale No. 3, \$32.50.
 14. D. T. Sinton, Uniontown, Sale No. 4, \$41.65.
 18. G. L. Frye, 29 Main St., Sale No. 5, \$12.75.
 20. The Long Construction Co., Uniontown, 30 days, Sale No. 6, \$142.50.
 23. Henry Mason, 64 Union St., Sale No. 7, \$21.55.
 27. D. P. Lewis, 310 Chestnut St., Sale No. 8, \$9.75.
 28. Maynard Pritchett, Brookville, 30 days, Sale No. 9, \$65.25.

When the above transactions have been recorded in the sales journal as instructed, and the sales journal ruled as in Illustration No. 20, open accounts on a sheet of ledger paper with Sales and each of the nine customers, allowing four lines for each. When the posting has been completed, take a Trial Balance.

Exercise No. 19, Recording Transactions in the Sales Journal.

Record in the sales journal (journal paper ruled similar to Illustration No. 19) the following transactions relative to the sale of merchandise during the month of January by H. H. Goodman, a retail grocer:

- Jan. 4. A. R. Jennings, 105 Main St., 20 lbs. roasted coffee at 33c; 100 lbs. granulated sugar at 7c; 50 lbs. bacon at 23c.
 8. Central Hotel, 22 Walnut St., 5 bbls. Blue Ribbon flour at \$9.25; 4 hams, 100 lbs., at 26c; 100 lbs. granulated sugar at 7c.
 11. A. R. Jennings, 105 Main St., 1 doz. cans tomatoes, \$2.00; 4 cans, 216 lbs., lard at 26c.
 13. M. A. Johnson, Kingston, 5 bbls. White Rose flour at \$9.75; 6 hams, 141 lbs., at 26c.
 16. Imperial Hotel, 200 Locust St., 5 bbls. Blue Ribbon flour at \$9.25; 100 lbs. granulated sugar at 7c.
 19. A. C. Williams, 1221 Elm St., 12 doz. cans peaches at \$1.80 per doz.; 2,000 lbs. bran at \$16.25 per 1,000 lbs.
 22. R. G. Mathews, 25 E. Fourth St., 10 bu. meal at \$1.10; 5 bu. beans at \$3.20; 3 doz. can peaches at \$1.80 per doz.
 25. Imperial Hotel, 200 Locust St., 5 bbls. White Rose flour at \$9.75; 25 lbs. creamery butter at 41c.
 26. J. C. Wilson, 270 Central Ave., 2,000 lbs. bran at \$16.25 per 1,000 lbs.; 5 cans, 248 lbs., lard at 26c.
 27. C. L. Loyd, 1604 Vine St., 100 lbs. brown sugar at 6½c; 100 lbs. granulated sugar at 7c; 5 bbls. White Rose flour at \$9.75.

When the above transactions have been recorded in the sales journal as instructed, and the sales journal ruled as in Illustration No. 19, open accounts on a sheet of ledger paper with Sales and each of the eight customers, allowing five lines each for A. R. Jennings and Imperial Hotel and four lines for each of the other accounts. When the posting has been completed, take a Trial Balance.

After the instructor has approved this exercise, retain the sales journal only for use in connection with Exercise No. 22.

Exercise No. 20, Recording Transactions in the Sales Journal.

Record in the sales journal (journal paper ruled similar to Illustration No. 19) the following transactions relative to the sale of merchandise during the month of March by C. U. Steele, a retail shoe dealer:

- Mar. 1. R. L. Watson, 207 Mason St., 1 pr. Queen City shoes, \$10.50.
 4. C. A. Sheppard, Canton, 3 prs. Ladies' shoes at \$4.00.
 9. J. C. Wilson & Co., Hamilton, 8 prs. Men's Calf shoes at \$2.50; 14 prs. Men's Jefferson shoes at \$3.75.

(Concluded on page 50.)

(Exercise No. 20—Continued from page 49.)

- Mar. 12. A. R. King, Boston, 1 pr. Ladies' Bal. at \$4.50.
 15. W. E. Peters, Clinton, 1 pr. Men's Vici Autocrat shoes, \$14.00.
 18. W. K. Love, 207 Main St., 1 pr. Men's Vici Kid shoes, \$11.50.
 21. A. R. King, Boston, 2 prs. Women's Box Calf at \$4.00.
 26. C. A. Sheppard, Canton, 1 pr. Men's Cong. Calf, \$9.00.
 30. R. L. Watson, 207 Mason St., 6 prs. Children's Satin Calf at \$2.75.

When the above transactions have been recorded in the sales journal and the sales journal ruled as in Illustration No. 19, open an account on page 1 of the double sheet of ledger paper used in Exercise No. 17 with Sales on the fourth line below the heading of the Purchases account; open an account with each of the six customers on page 3 of this same ledger sheet, allowing equal space for each personal account; take a Trial Balance. When approved, retain the ledger sheet for use in Exercise No. 23.

§ 42. **The Cash Record.** There are two classes of cash transactions: those in which cash is received, and those in which cash is paid. These transactions may be recorded in two separate journals, the receipts in a cash receipts journal and the payments in a cash payments journal, or they may be recorded in a cash book which is a combination of the two journals. When one bookkeeper records all the transactions with cash received and paid, it is better to use the cash book; when the recording of cash transactions requires more than one bookkeeper, it is better to use separate cash receipts and cash payments journals.

Cash				Receipts	
Jan.	1	✓	E. T. Taylor Capital Investment	1000	
	12	✓	Sales Cash sales	3050	
	20	✓	A. R. Manley On account	10	
	27	✓	Gibson Hotel " "	3050	
	30	✓	Sales Cash sales	4185	
	31	✓	Cash Dr. Total receipts	111285	111285
Feb.	1	✓	Balance On hand		82353

Illustration No. 22, Receipts Side of Cash Book.

EXPLANATION. The transactions recorded on the receipts side of the cash book in the illustration are equivalent to a journal entry in which the Cash account is debited for the total, and each of the four accounts credited for the amount written on the same line with it. The ruling separates the cash receipts for two different months; the balance at the beginning of the month is carried down below the ruling because it will be needed in the subsequent proving of cash.

§ 43. **The Cash Book** is a book of original entry in which all receipts and payments of cash are recorded and no other transactions are recorded in it. Receipts and payments are usually recorded on separate pages opposite each other, receipts on the left and payments on the right. The complete record of a transaction in which cash is received or paid consists of the date, the name of the account affected, the explanation, and the amount received or paid. The ruling in the cash book should be so arranged that all this information can be recorded on one line. When

arranged in this manner, each account affected by a cash receipt can be credited for the amount and the Cash account debited for the total at the end of the month; each account affected by a cash payment can be debited for the amount and the Cash account credited for the total at the end of the month. One form of the cash book is shown in Illustrations Nos. 22 and 23; other forms will be illustrated and explained later.

When a cash sale is recorded in the cash book only, the Sales account is credited; if recorded in the sales journal and cash book, the customer whose account is debited by the sales journal entry is credited in the cash book entry. When a cash purchase is recorded in the cash book only, the Purchases account is debited; if recorded in the purchases journal and cash book, the creditor whose account is credited by the purchases journal entry is debited in the cash book entry.

The following receipts and payments of cash made during the month of January by E. B. Taylor, a retail grocer, are shown recorded in the cash book in Illustrations Nos. 22 and 23:

- Jan. 1. E. B. Taylor invested \$1,000.00 in the retail grocery business.
 4. Paid \$20.00, city and state license for one year.
 10. Paid J. F. Sherwood \$192.00 for a cash purchase of merchandise.
 12. Received \$30.50 for sundry cash sales.
 13. Paid E. C. Cline \$77.30 in full of account.
 20. Received \$10.00 from A. R. Manley to apply on account.
 27. Received \$30.50 from the Gibson Hotel to apply on account.
 30. Received \$41.85 for sundry cash sales.

<i>Cash</i>				<i>Payments</i>			
19	Jan.	4	Expense	City and state license	20		
		10	Purchases	Cash purchase	192		
		13	E. C. Cline	In full of account	77 30		
		31	Cash Cr	Total payments.	289 30		
			Balance			1 289 30	
							1 112 85

Illustration No. 23, Payments Side of Cash Book.

EXPLANATION. The transactions recorded on this side of the cash book are equivalent to a journal entry in which three accounts are debited, each for the amount written on the same line with it, and the Cash account credited for the total. The balance is entered in red ink because it is customary to use red ink when an amount is entered in a book of account or a ledger account in order to make the two sides equal. The ruling separates the cash payments for two different months.

§ 44. Proving Cash. The difference between the two sides of the cash book should at all times equal the amount of cash belonging to the business; the proof is effected by counting the cash and comparing it with the balance shown by the cash book. Cash should be proved before posting. After the cash is proved at the end of the month, the cash book is ruled; Illustrations Nos. 22 and 23 show the method of footing and ruling the cash book at the end of the month.

E B. Taylor Capital

				¹⁹² Jan. 1		Cr.	1000	
			Sales					
				¹⁹² Jan. 12		Cr.	30 50	
				30		Cr.	41 85	
			A. R. Manley					
				¹⁹² Jan. 20		Cr.	10	
			Gibson Hotel					
				¹⁹² Jan. 27		Cr.	30 50	
			Cash					
¹⁹² Jan. 31					Cr.	1112 85		
				¹⁹² Jan. 31		Cr.	289 30	
			Expense					
¹⁹² Jan. 4					Cr.	20		
			Purchases					
¹⁹² Jan. 10					Cr.	192		
			E. C. Cline					
¹⁹² Jan. 13					Cr.	77 30		

Illustration No. 24, Ledger Resulting from Posting Illustrations Nos. 22 and 23.

EXPLANATION. This illustration is given to show that the ledger is in balance when all the transactions recorded in the cash book have been posted, and not to show the true meaning of the accounts. Accounts resulting from the posting of transactions recorded in the cash book only will not show their true meaning because of the connection between the record in the cash book and that in the purchases and sales journals. If desired, the posting from the receipts side, the payments side, and both sides of the cash book may each be proved by a separate Trial Balance.

§ 45. Posting from the Cash Book. The accounts affected by each transaction recorded on the receipts side of the cash book are Cash debited and some account credited; for this reason each amount written on the line with the name of the account is posted to the credit of the account, and Cash is debited with the total at the end of the month. The accounts affected by each transaction recorded on the payments side of the cash book are some account debited and Cash credited; for this reason each amount written on the line with the name of the account is posted to the debit of the account, and Cash is credited with the total at the end of the month. The posting to the accounts debited and credited is daily, and to the Cash account monthly. The date, the letter "C" and the page of the cash book are entered in the ledger; the letter "C" indicates the title of the book of original entry. The page of the ledger is written in the ledger folio (L. F.) column of the cash book to indicate where the entry has been posted.

The posting of the transactions recorded in the cash book, Illustrations Nos. 22 and 23, is shown in Illustration No. 24.

Some bookkeepers advise a Cash account in the ledger, while others accept the record in the cash book as the Cash account. The Cash account in the ledger will show the total receipts and total payments of cash for a period longer than a month, while the record in the cash book shows the total receipts and total payments for each month only. If it is desired to know the cash receipts and cash payments for the first six months of a given year, this information can be obtained from the total debits and total credits to the Cash account in the ledger; if the cash book is the only record of cash, it will be necessary to add the totals for each of the six months in order to ascertain the desired information.

Exercise No. 21, Recording Transactions in the Cash Book.

Record in the cash book (the two inside pages of a double sheet of journal paper* ruled similar to Illustrations Nos. 22 and 23), receipts on the left and payments on the right, the following cash transactions performed during the month of February:

- Feb.
1. Student invested \$1,276.80 in the retail grocery business.
 2. Received \$150.00 from E. H. White to apply on account.
 3. Paid office rent for the month of February, \$40.00.
 4. Received \$80.00 for cash sales.
Paid H. R. Swanson \$60.00 to apply on account.
 6. Received \$120.00 for cash sales.
 8. Paid A. B. Hill \$90.50 to apply on account.
 9. Received \$90.00 from J. K. Lachman in payment for merchandise sold him on the 4th.
 10. Paid drayage on merchandise purchased, \$22.50.
 - * 11. Paid J. G. Pipkin \$124.00 to apply on account.
 14. Received \$69.75 for cash sales.
 16. Received \$170.00 from P. B. S. Peters in payment for merchandise sold him on the 10th.
 18. Paid \$45.00 for office supplies.
 20. Paid J. T. Ludlow \$146.00 to apply on account.
 22. Purchased merchandise for cash from H. P. King, \$128.00.
 23. Received \$47.85 for cash sales.
 24. Received \$210.00 from H. M. Lovert to apply on account.
 25. Paid salesman's expenses, \$76.00.
Received \$52.50 for cash sales.

(Concluded on page 54.)

*If double journal paper with from thirty to forty lines on each page is not available, cash receipts should be recorded on one sheet of paper and payments on another, as the proper ruling of the cash book cannot be shown when receipts are entered on one side and payments on the other side of the same sheet.

(Exercise No. 21—Continued from page 53.)

- Feb. 27. Paid \$32.80 for freight on merchandise purchased.
 Paid clerk hire, \$40.00.
 28. Paid for advertising, \$22.50.
 Cash balance, \$1,439.60.

When the above transactions have been recorded in the cash book as instructed, prove cash and rule the cash book on the same blue line on each side as in Illustrations Nos. 22 and 23. Open accounts on a sheet of ledger paper with Student, Capital (5), Cash (5), Purchases (6), Sales (8), Expense (8), E. H. White (4), J. K. Lachman (4), P. B. S. Peters (4), H. M. Lovert (4), H. R. Swanson (4), A. B. Hill (4), J. G. Pipkin (4), J. T. Ludlow (4), allowing for each account the number of lines indicated. Post the transactions, and prove the equality of the debits and credits by a Trial Balance of balances.

Exercise No. 22, Recording Transactions in the Cash Book.

Record in the cash book, receipts on the left and payments on the right, the following cash transactions performed during the month of January by H. H. Goodman, a retail grocer:

- Jan. 1. H. H. Goodman invested \$2,000.00 in the retail grocery business.
 4. Paid \$20.00 for city license.
 5. Paid City Milling Co. \$192.00 for a cash purchase.
 6. Received \$30.00 for sundry cash sales.
 Paid Brown & Co. \$77.30 in full of account.
 9. Received \$10.00 from A. R. Jennings to apply on account.
 12. Received \$30.00 from Central Hotel to apply on account.
 13. Received \$40.00 for sundry cash sales.
 Paid Knox Bros. \$100.00 to apply on account.
 18. Received \$35.00 from M. A. Johnson to apply on account.
 20. Paid Knox Bros. \$34.95 in full of account.
 Received \$50.00 for sundry cash sales.
 24. Received \$15.00 from Central Hotel to apply on account.
 Paid Hazen & Lockhart \$125.00 to apply on account.
 26. Received \$15.10 from A. R. Jennings to apply on account.
 27. Received \$42.50 for sundry cash sales.
 29. Received \$50.00 from C. L. Loyd to apply on account.
 30. Paid Brown & Co. \$150.00 to apply on account.
 31. Paid bookkeeper's salary, \$35.00; rent, \$25.00.
 Cash balance, \$1,558.35.

When the above transactions have been recorded in the cash book as instructed, prove cash and rule the cash book; then proceed as follows:

1. Open accounts on ledger paper with H. H. Goodman, Capital (4), Cash (4), Purchases (4), Sales (6), Expense (4), A. R. Jennings (4), Central Hotel (4), M. A. Johnson (4), C. L. Loyd (4), Brown & Co. (4), Knox Bros. (4), Hazen & Lockhart (4), allowing for each account the space indicated; post the transactions, and prove the equality of the debits and credits by a Trial Balance of balances.

2. After the instructor has approved the work required in the first paragraph, post to a sheet of ledger paper the transactions in the purchases journal for Exercise No. 16 and the sales journal for Exercise No. 19, which you were instructed to retain, and the cash book in this exercise. Arrange the accounts as follows: Cash (6), customers (each 4 lines), creditors (each 4 lines), H. H. Goodman, Capital (5), Sales (7), Purchases (4), Expense (4), allowing for each the number of lines indicated; take a Trial Balance of balances from this ledger.

(Concluded on page 55.)

(Exercise No. 22—Continued from page 54.)

The purpose of the second division of this exercise is to show that the ledger is in balance when all the transactions from all the special journals have been posted, the same as it is when all the transactions from each special journal have been posted.

Present the purchases journal, sales journal, cash book, ledger resulting from posting the transactions from the three books, and Trial Balances to the instructor for approval.

Exercise No. 23, Recording Transactions in the Cash Book.

Record in the cash book the following cash transactions performed during the month of March by C. U. Steele, a retail shoe dealer:

- Mar. 1. C. U. Steele invested \$2,500.00 in the retail shoe business.
 2. Bought from M. B. Arnstine, for cash, stock of shoes, \$1,691.42.
 3. Paid telephone service in advance for three months, \$20.00.
 Received \$69.85 for cash sales.
 5. Paid clerk's salary, \$25.00.
 6. Received \$10.50 from R. L. Watson in full of account.
 8. Paid Bay State Shoe Co. \$496.81 in full of account.
 9. Received \$275.40 for cash sales.
 12. Paid clerk's salary, \$25.00.
 13. Paid \$75.00, premium on insurance policy.
 15. Paid Haynes, Henson & Co. \$387.65 in full of account.
 16. Received \$12.00 from C. A. Sheppard in full of account.
 18. Paid \$8.25 for stamps and stationery.
 19. Paid clerk's salary, \$25.00.
 22. Received \$72.50 from J. C. Wilson & Co. in full of account.
 24. Received \$11.50 from W. K. Love in full of account.
 26. Received \$581.92 for cash sales.
 Paid clerk's salary, \$25.00.
 29. Received \$4.50 from A. R. King for merchandise sold him on the 12th.
 31. Paid rent, \$50.00.
 Paid Cline Shoe Co. \$168.42 for merchandise purchased on the 6th.
 Received \$361.92 for cash sales.
 Cash balance, \$902.54.

When the above transactions have been recorded in the cash book as instructed, prove cash and rule the cash book. Open an account on page 1 of the double sheet of ledger paper used in Exercises Nos. 17 and 20 with C. U. Steele, Capital, on the seventh line below the heading of the Sales account, an account with Expense on the fifth line below the heading of the account with C. U. Steele, Capital, and an account with Cash on the ninth line below the heading of the Expense account. Post the entries in the cash book to the accounts on pages 1, 2 and 3 of the ledger sheet, and take a Trial Balance of balances.

Retain the ledger and Trial Balance for use in Exercise No. 37.

§ 46. **The General Journal** is a book of original entry in which all transactions are recorded except those recorded in special journals. The general journal is the same as the journal explained in § 22, and the ruling is the same as the various illustrations of the journal given in preceding chapters. When purchases are recorded in the purchases journal, sales in the sales journal, and cash receipts and payments in the cash book, all other transactions are recorded in the general journal. These transactions may be classified into four groups: (1) opening entries; (2) current entries; (3) correcting entries; (4) adjusting and closing entries.

¶ 1. *Opening Entries* are those necessary to record assets other than cash invested by the owner at the beginning of the business. If the business is owned

by one person and his investment is cash, the opening entry will be made in the cash book. If assets other than cash are invested, the accounts which are to show the value of the assets will be debited, and the owner's Capital account credited for the total of the assets in the opening entry in the journal. If the owner wishes to have the business assume liabilities, two entries are necessary to open the books, one to record the assets, and the other to record the liabilities; the owner's Capital account is debited for the total liabilities, and the accounts which are to show the liabilities, credited.

ILLUSTRATION. January 1, S. J. Shook began the retail shoe business. He invested cash \$500.00, merchandise \$425.65, and an account due him from W. H. Barton for \$221.75. He owes the Ritter Shoe Co. \$150.00 and the Haynes Shoe Co. \$75.85. The cash invested will be recorded in the cash book as in the first entry in Illustration No. 22; the other assets and the liabilities will be recorded in the general journal as in the illustration at the right.

January 1, 192

<i>Purchases.</i>			
W. H. Barton	425	65	
S. J. Shook, Capital	221	75	
			647 40
S. J. Shook, Capital	225	85	
Ritter Shoe Co.			150
Haynes Shoe Co.			75 85

If desired, the entry for the cash invested may be made in connection with the entry in the general journal for the other assets. When this plan is followed, cash and each asset is debited and the proprietor credited in the same form as in the illustration. The proprietor is also credited for the cash in the cash book in the same manner as though the entry for the cash had not been made in the general journal. A check mark is placed in the L. F. column at the left of Cash in the general journal and at the left of the proprietor's name in the cash book to avoid double posting.

¶ 2. *Current Entries* are those necessary to record transactions in the regular operations of the business. When the nature of these transactions is such that they cannot be recorded in one of the special journals, it is necessary to record them in the general journal. Current entries include those for transactions in which merchandise is returned to a creditor, a customer returns merchandise, assets other than cash are accepted from customers in payment of their obligations, and assets other than cash are given to a creditor in payment of an obligation owed him.

ILLUSTRATION. May 12, George A. Douglas purchased from the Potter Shoe Co. two pairs shoes at \$8.50, with the privilege of returning one pair within five days. This transaction was recorded in the sales journal, his account being debited with \$17.00. May 15 he returned one pair and received credit for \$8.50 as per agreement. The entry required in the general journal is shown in the illustration at the right.

May 15, 192

<i>Sales</i>			
George A. Douglas	8	50	
			8 50

¶ 3. *Correcting Entries* are those made necessary because of errors in recording transactions. These errors may occur in the calculations necessary to ascertain the amount of a sale, a purchase, merchandise returned by a customer, merchandise returned to a creditor, or they may be the result of incorrect posting.

ILLUSTRATION. April 16, C. A. Moore purchased from Dawes Bros., retail tire dealers, two 32 x 3½ Fisk cord tires at \$37.75 each. The transaction was recorded in the sales journal by the bookkeeper for Dawes Bros., but through an error, the amount was entered as \$85.50 instead of \$75.50. May 1, Dawes Bros. received \$75.50 from Mr. Moore in full payment for the two tires. When the bookkeeper for Dawes Bros. posted the amount to Mr. Moore's account, there was a balance of \$10.00, due to the error which Mr. Moore had reported. The only means of correcting this error was through an entry in the general journal similar to that in the illustration at the right.

May 1, 192

<i>Sales</i>			
C. A. Moore	10		
			10

¶ 4. *Adjusting and Closing Entries* are those required at the end of a business year. These are explained and illustrated in succeeding chapters.

¶ 5. *Posting from the General Journal.* Each amount entered in the debit column is posted to the debit side of the account written on the same line with it. Each amount entered in the credit column is posted to the credit side of the account written on the same line with it. The process is the same as that given in § 23.

Exercise No. 24, Purchases Journal, Sales Journal, General Journal, and Cash Book.

Record in the purchases, sales (Illustration No. 19), and general journals and the cash book, the following transactions performed during the month of February by Donald D. Sells, a retail hardware merchant:

- Feb. 1. Donald D. Sells invested \$3,000.00 in the hardware business.
2. Bought from Moore & Moore, City, on account, merchandise, \$187.65. Enter in the purchases journal as Purchase No. 1 and number succeeding entries in this journal in regular order.
3. Sold J. C. Mason, City, on account, four kegs nails at \$4.50 each.
4. Paid Davis Bros., City, \$281.36 for a cash purchase of merchandise. Enter on the payments side of the cash book as a debit to the Purchases account.
5. Paid \$25.00 telephone rent for three months in advance.
6. Bought from the Pickering Hardware Co., Danville, on fifteen days' time, merchandise, \$321.97.
7. Paid Moore & Moore \$100.00 on account.
8. Received \$116.50 for cash sales.
9. Sold Walter Love, Riverside, on account, one saw, \$5.00; one corn sheller, \$37.25.
10. Bought from Johnson Bros., Dayton, on fifteen days' time, merchandise, \$261.85.
11. Received \$18.00 from J. C. Mason in full of account.
12. Paid Moore & Moore \$87.65 in full of account.
13. Sold J. C. Miller, City, on account, 100 lbs. lead at 8c; 4 doz. picks at \$14.50 per doz.
14. Received \$106.95 for cash sales.
15. Gave Walter Love credit for \$5.00, value of the saw sold him on the 9th and returned by him per agreement.
16. Received \$20.00 from Walter Love to apply on account.
17. Paid clerk's salary, \$30.00.
18. Bought from Donaldson Bros., Mooresville, on account, merchandise, \$321.85.
19. Sold Central Construction Co., Arlington, on account, 3 doz. shovels at \$9.00 per doz.; 5 doz. picks at \$14.00 per doz.; 6 scrapers at \$38.50 each.
20. Paid Pickering Hardware Co. \$321.97 in full of account.
21. Received \$15.60 cash from Davis Bros. for three kegs of nails purchased from them on the 4th and returned by us per agreement.
22. Paid Johnson Bros. \$150.00 on account.
23. Received \$125.25 for cash sales.
24. Donaldson Bros. have allowed us credit for \$32.60, cutlery purchased from them on the 17th and returned by us per agreement.
25. Sold Walter Love, Riverside, on account, 1 Studebaker wagon, \$125.00.
26. Paid Johnson Bros. \$100.00 to apply on account.
27. Purchased from the Pickering Hardware Co., Danville, on fifteen days' time, merchandise, \$127.50.
28. Received \$17.25 from Walter Love in full for the corn sheller sold him on the 9th.
29. Received \$121.85 for cash sales.
30. Paid rent, \$50.00; clerk's salary, \$30.00.

When the above transactions have been recorded in the four books of original entry, prove cash (balance, \$2,365.42) and rule the cash book as in Illustrations Nos. 22 and 23. Open accounts on a sheet of ledger paper with Cash (8), J. C. Mason (5), Walter Love (7), J. C. Miller (5), Central Construction Co. (5), Moore &

Moore (6), Pickering Hardware Co. (6), Johnson Bros. (6), Donaldson Bros. (5), Donaldson D. Sells, Capital (8), Sales (10), Purchases (10), Expense (8), allowing for each account the number of lines indicated; post from the books of original entry, and take a Trial Balance of totals.

Retain the ledger and Trial Balance for use in Exercise No. 38.

Exercise No. 25, Purchases Journal, Sales Journal, General Journal and Cash Book.

Record in the purchases, sales (Illustration No. 20), and general journals and the cash book, the following transactions performed during the month of October by H. A. Popp, a retail coal dealer.

- Oct. 1. H. A. Popp invested \$1,000.00 in the retail coal business.
3. Bought from the Central Coal Co., Jerseyville, on ten days' time, \$250.00.
Enter in the purchases journal as Purchase No. 1 and number succeeding entries in this journal in regular order.
- Sold J. C. Miller, City, on account, coal per Sale No. 1, \$52.50.
4. Bought from Davis Coal Co., Covington, on account, \$175.50.
5. Paid \$10.00 for one month's telephone service.
6. Bought from Jellico Coal Co., Jellico, on fifteen days' time, \$362.75.
8. Paid the Central Coal Co. \$100.00 on account.
Received \$62.80 for cash sales of coal.
9. Sold M. B. Wallace, City, on account, coal per Sale No. 2, \$30.50.
10. Paid the Murray Drayage Co. \$104.90, freight and drayage bills on coal purchased and delivered.
Received \$151.05 for cash sales of coal.
11. Sold the Central Hotel, City, on account, coal per Sale No. 3, \$242.50.
12. Paid the Central Coal Co. \$150.00 in full of account.
13. Sold J. C. Miller, City, on account, coal per Sale No. 4, \$16.50.
15. Paid clerk's salary for the first half of the month, \$40.00.
Received \$122.00 for cash sales of coal.
16. Received \$20.00 from M. B. Wallace on account.
18. Paid the Donaldson Coal Co. \$400.00 for coal delivered today.
20. Paid the Jellico Coal Co. \$150.00 on account.
The Jellico Coal Co. has allowed us credit for \$10.00 overcharge on coal purchased on the 6th.
22. Received \$10.50 from M. B. Wallace in full of account.
23. Sold the Central Hotel, City, on account, coal per Sale No. 5, \$27.50.
24. Bought from the Davis Coal Co., Covington, on account, \$209.38.
25. Received \$135.65 for cash sales of coal.
26. Allowed the Central Hotel credit for \$2.50, error in weight of coal sold them on the 23d.
Sold M. B. Wallace, City, on account, coal per Sale No. 6, \$10.00.
27. Received \$200.00 from the Central Hotel to apply on account.
29. Sold J. C. Miller, City, on account, coal per Sale No. 7, \$40.00.
30. Received \$192.80 for cash sales of coal.
31. Paid rent, \$65.00; clerk's salary for the latter half of the month, \$40.00.

When the above transactions have been recorded in the four books of original entry, prove cash (balance, \$834.90) and rule the cash book. Open accounts on a sheet of ledger paper with Cash (8), J. C. Miller (7), M. B. Wallace (7), Central Hotel (6), Central Coal Co. (6), Davis Coal Co. (6), Jellico Coal Co. (6), H. A. Popp, Capital (8), Sales (12), Purchases (10), Expense (8), allowing for each account the number of lines indicated; post from the books of original entry, and take a Trial Balance of balances.

Retain the ledger and Trial Balance for use in Exercise No. 39.

Summary of Chapters II, III, IV and V. Transactions may be recorded direct in the ledger, in one journal and posted to the ledger, or in special journals and posted to the ledger; the final results are the same in each case. The Trial Balance, if in balance, proves that the total of the debit amounts recorded in the ledger equals the total of the credit amounts recorded in the ledger; also that the addition of those accounts which have more than one amount recorded on the debit or credit side is correct. The Trial Balance may be made by using the total debits and total credits of each account, or the balance of each account; the final results are the same with either method.

Each account is debited and credited as a result of the recording of business transactions. All money received is recorded on the debit side of the Cash account, and all the money paid on the credit side. The value of merchandise purchased is recorded on the debit side of the Purchases account, and the value of merchandise returned to a creditor on the credit side of this account. The value of merchandise sold is recorded on the credit side of the Sales account, and the value of merchandise which customers return is recorded on the debit side of this account. When a customer buys merchandise and does not pay for it at the time it is purchased, his account is debited for the amount; when he pays this obligation to the business, his account is credited. When a business buys merchandise and does not pay for it at the time of purchase, the account with the creditor is credited; when the business pays this obligation, the account with the creditor is debited. When a customer has paid all he owes, his account will be in balance; when the business has paid a creditor all it owes him, his account will be in balance. The expenses of the business are recorded on the debit side of the Expense account. The owner of the business is credited in his Capital account with the investment, and debited with any amount which he withdraws from the investment.

The purpose of special journals is to save time in recording transactions and posting to the accounts in the ledger. When a number of transactions affect the same account, the amounts debited or credited to this account may be posted in one amount if all these transactions are in one journal. The purchases journal contains a record of all transactions in which merchandise is purchased on account; the sales journal contains a record of all transactions in which merchandise is sold on account; the cash book contains a record of all transactions in which cash is received and paid.

QUESTIONS

1. Describe in detail the labor saved in recording one hundred sales of merchandise on account in the sales journal instead of the journal.
2. Describe in detail the labor saved in recording fifty purchases of merchandise on account in the purchases journal instead of the journal.
3. Can you suggest some method of obtaining a copy of a sale made to a customer on account without writing twice the description of the articles sold?
4. Describe in detail the labor saved in recording one hundred sales in the sales journal, Illustration No. 20, instead of the sales journal, Illustration No. 19, provided you have suggested a means of retaining a copy of the items sold without writing them twice.
5. When is it advisable to record the transactions in a cash receipts journal and a cash payments journal?
6. Is it necessary to enter receipts on the left and payments on the right pages of a cash book?

7. Describe in detail the method of proving cash.
8. Would you consider it advisable to prove cash before posting? Give reason for your answer.
9. Describe in detail the method of recording a purchase of merchandise for cash in the cash book and the purchases journal.
10. Describe in detail the method of entering a cash purchase in the cash book only.
11. What account is debited and credited when the total cash receipts and cash payments are posted at the end of the month?
12. Name the account debited when the total of the purchases journal is posted at the end of the month. What accounts show the credits?
13. What account is affected when the total of the sales journal is posted at the end of the month? How?
14. Why is it necessary to post the total of the purchases journal and the total of the sales journal at the end of the month?
15. If the difference between the two sides of the cash book is greater than the cash on hand, what does this indicate?
16. If the difference between the two sides of the cash book is less than the cash on hand, what does this indicate?
17. If you were keeping books for a retail drug store and the difference between the two sides of the cash book was \$10.00 more than the cash on hand, what entry would you make for this \$10.00?
18. Have you seen a cash register in operation? If so, can you explain its connection with the entries in the cash book?
19. What does the total of the debit side of the cash book show?
20. What does the total of the credit side of the cash book show?
21. What does the total of the debit side of the Cash account in the ledger show?
22. What does the total of the credit side of the Cash account in the ledger show?
23. Will the balance of cash on hand, as shown by the cash book on December 31, 1921, show the same amount as the balance of the Cash account in the ledger which shows a record of cash transactions from January 1, 1921 to December 31, 1921?
24. What additional information, which is not shown in the cash book, does the owner of a business obtain from the totals of the two sides of the Cash account in the ledger?
25. Name some of the transactions which the bookkeeper for a retail jewelry business might enter in the general journal.

Chapter VI

A MODEL SET

The Purpose of this Model Set is to illustrate the recording of transactions for a period of two months and to serve as a basis for completing the two practice sets which are separate from the text. The references in connection with each transaction correlate the principles discussed in the preceding chapters with the recording of the transactions. Illustrations Nos. 25-38 show the method of recording the transactions for September and October, ruling the books of account, posting, forwarding accounts, and the Trial Balance at the close of each month. The student is not required to record the transactions for September and October, but he should check them with the entries in the illustrations before he begins the first practice set, or as he proceeds with it.

MEMORANDA OF TRANSACTIONS FOR MODEL SET

September

- I. W. A. Gordon invested \$1,000.00 cash and \$500.00 merchandise in the retail grocery business. (Recorded as in the first entry in Illustration No. 29 and the first entry in Illustration No. 28; §§ 43 and 46. Two accounts are debited, §§ 15 and 17, and one account credited, § 34.)

September, 19

Date	L. F.	Account Credited	Address	Terms	Pur. No.	Amount
2	✓	Brown Bros.	City	account	1 ✓	79 30
3	3	King & King	City	"	2 ✓	136 95
5	✓	Brown Bros.	City	cash	3 ✓	1 94
10	✓	Brown Bros.	City	account	4 ✓	230
15	✓	Brown Bros.	City	"	5 ✓	248
17	3	Lake View Creamery	Dayton	20 days	6 ✓	30
23	✓	Brown Bros.	City	10 "	7 ✓	199 10
29	3	King & King	City	10 "	8 ✓	174 75
30	4	Purchases, Dr -	Total			11292 10
<i>October, 19</i>						
1	3	Dick, Mc Millan & Co.	Springfield	15 days	9	381 78
15	3	Lake View Creamery	Dayton	20 "	10	48
16	✓	Brown Bros.	City	30 "	11	216 50
20	3	King & King	City	30 "	12	127 65
24	3	Dick, Mc Millan & Co.	Springfield	15 "	13	117 90
27	3	Dawson Bros & Co.	Lebanon	30 "	14	307 55
28	3	King & King	City	30 "	15	141 37
31	4	Purchases, Dr -	Total			1340 75

Illustration No. 25, Purchases Journal for Model Set.

2. Bought from Brown Bros., City, on account, merchandise per Purchase No. 1, \$79.30. (Recorded as in the first entry, Illustration No. 25; § 38.)
3. Bought from King & King, City, on account, merchandise, per Purchase No. 2, \$136.95. (References same as for above transaction.)
4. Paid \$25.00 cash for city and state license. (Debit § 32; credit § 15.)
5. Sold A. Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 1, \$16.25. (Recorded as in the first entry, Illustration No. 26; § 40.)
Bought from Brown Bros., City, for cash, merchandise per Purchase No. 3, \$194.00. (Recorded as in the third entry in Illustration No. 25 and in the second entry in Illustration No. 30.)
6. Received \$32.00 for sundry cash sales to date. (Debit § 15; credit § 18.)
Paid Brown Bros. \$79.30 in full for merchandise purchased on the 2d. (Recorded as in the third entry, Illustration No. 30; § 28.)
8. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 2, \$59.35. (Debit § 27; credit § 18. Illustration No. 26.)
9. Received \$10.00 from A. Y. Jordan to apply on merchandise sold him on the 5th. (Debit § 15; credit § 27. Illustration No. 29.)
10. Bought from Brown Bros., City, on account, merchandise per Purchase No. 4, \$230.00. (Debit § 17; credit § 28. Illustration No. 25.)
11. Sold A. Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 3, \$56.25. (Debit § 27; credit § 18. Illustration No. 26.)
12. Received \$30.50 from People's Hotel to apply on account.
13. Received \$40.00 for sundry cash sales to date. (Debit § 15; credit § 18.)
Paid King & King \$100.00 to apply on account. (Debit § 28; credit § 15.)
Sold W. O. Burns, Kingston, on account, merchandise per Sale No. 4, \$54.40. (Debit § 27; credit § 18. Illustration No. 26.)
15. Bought from Brown Bros., City, on account, merchandise per Purchase No. 5, \$248.00. (Debit § 17; credit § 28. Illustration No. 25.)
Proved cash (balance, \$714.20) and posted. (§ 44; § 39; § 41; § 45; § 46, ¶ 5. Illustrations Nos. 33, 34, 35 and 36.)
16. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 5, \$51.40. (Illustration No. 26.)
17. Bought from Lake View Creamery, Dayton, on 20 days' time, merchandise per Purchase No. 6, \$30.00. (Illustration No. 25.)
18. Received \$35.00 from W. O. Burns to apply on merchandise sold him on the 13th. (Illustration No. 29.)
19. Sold James O. Wills, 416 Broad St., City, on account, merchandise per Sale No. 6, \$44.30. (Illustration No. 26.)
Allowed People's Hotel credit for \$9.10, one barrel flour, purchased on the 16th, returned because it had been damaged by coming in contact with kerosene. (§ 18, ¶ 1; § 27, ¶ 2; § 46, ¶ 2. Illustration No. 28.)
20. Paid King & King \$36.95 in full of account. (Illustration No. 30.)
Received \$65.00 for sundry cash sales to date. (Illustration No. 29.)
22. Sold James C. Wells, 765 E. 9th St., City, on account, merchandise per Sale No. 7, \$26.05. (Illustration No. 26.)

23. Bought from Brown Bros., City, on 10 days' time, merchandise per Purchase No. 7, \$199.10. (Illustration No. 25.)
Received credit from Brown Bros. for \$12.60, three cases of canned peaches at \$4.20, purchased on the 10th, returned per agreement. (§ 28, ¶ 1; § 17, ¶ 2; § 46, ¶ 2. Illustration No. 28.)
24. Received \$15.00 from People's Hotel to apply on account.
25. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 8, \$82.05. (Illustration No. 26.)
26. Received \$6.25 from A. Y. Jordan in full for merchandise sold him on the 5th. (Illustration No. 29.)
Sold James C. Wells, 765 E. 9th St., City, on account, merchandise per Sale No. 9, \$44.25. (Illustration No. 26.)
27. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 10, \$80.25. (Illustration No. 26.)
Received \$44.50 for sundry cash sales to date. (Illustration No. 29.)

September, 19

Date	L. F.	Account Debited	Address	Terms	Sale No.	Amount
5	1	A. Y. Jordan	115 Main St., City	account	1	16 25
8	1	People's Hotel	165 Willis St., City	"	2	59 35
11	1	A. Y. Jordan	115 Main St., City	"	3	56 25
13	1	W. O. Burns	Kingston	"	4	54 40
16	1	People's Hotel	165 Willis St., City	"	5	51 40
19	1	James O. Wells	416 Broad St., City	"	6	44 30
22	2	James C. Wells	765 E. 9th St., City	"	7	26 05
25	1	People's Hotel	165 Willis St., City	"	8	82 05
26	2	James C. Wells	765 E. 9th St., City	"	9	44 25
27	2	People's Hotel	165 Willis St., City	"	10	80 25
30	2	James O. Wells	416 Broad St., City	"	11	37 56
4		Sales, Cr.—Total				552 11
<i>October, 19</i>						
4	2	J. C. Taylor	3752 Crescent Ave., City	account	12	132 55
6	2	People's Hotel	165 Willis St., City	"	13	142 59
8	1	A. Y. Jordan	115 Main St., City	"	14	38 50
10	1	A. Y. Jordan	115 Main St., City	"	15	42 50
13	2	People's Hotel	165 Willis St., City	"	16	92 90
15	1	W. O. Burns	Kingston	"	17	45 75
17	2	J. C. Taylor	3752 Crescent Ave., City	"	18	86 42
		Carried Forward				581 12

October, 19

Date	L. F.	Account Debited	Address	Terms	Sale No.	Amount
	1	Brought Forward				581.12
21	2	J. C. Taylor	2752 Crescent Ave., City	account	19	55.40
22	1	James O. Wills	416 Broad St., City	"	20	51.40
23	2	People's Hotel	45 Willis St., City	"	21	162.25
25	2	People's Hotel	45 Willis St., City	"	22	116.65
27	1	W. O. Burns	Kingston	"	23	12.50
28	1	James O. Wills	416 Broad St., City	"	24	38.65
29	2	Robert E. Cowan	2175 Burnet Ave., City	"	25	64.83
31	4	Sales, Cr. - Total				1,279.80

Illustration No. 27, Page 2 of the Sales Journal for Model Set.

29. Bought from King & King, City, on 10 days' time, merchandise per Purchase No. 8, \$174.75. (Illustration No. 25.)
Received \$65.00 from People's Hotel to apply on account.
30. Paid Brown Bros. \$150.00 to apply on merchandise purchased on the 15th. (Illustration No. 30.)
Sold James O. Wills, 416 Broad St., City, on account, merchandise per Sale No. 11, \$37.56. (Illustration No. 26.)
Paid bookkeeper's salary for September, \$75.00; rent for September, \$65.00. (§ 32, ¶ 1; § 15, ¶ 2.) (Illustration No. 30.)
Proved cash (balance, \$618.00), and ruled the cash book. Posted* from the purchases, sales and general journals, and the cash book. Footed and ruled the purchases journal and sales journal; posted the total purchases, sales, cash receipts and cash payments. Took a Trial Balance of Balances; checked the Trial Balance because it did not balance due to an error in posting. (Illustration No. 37.)

The check marks on the double line at the left of each amount in the books of original entry indicate that the September Trial Balance did not balance and it was necessary for the bookkeeper to check the posting to ascertain the error. These check marks should be made on the double line to avoid confusion with the figures. It is not always possible to show the exact position of these check marks in the illustrations due to the variation in printing.

October

- W. A. Gordon withdrew \$200.00 cash from his capital.
Bought from Dick, McMillan & Co., Springfield, on 15 days' time, merchandise per Purchase No. 9, \$381.78.
- Received \$50.00 from James C. Wells to apply on account. He called attention to our error in debiting him with the sale of September 30; made a correcting entry to adjust this.
Paid the Central Transfer Co. \$2.25 cash for freight and drayage on merchandise purchased on September 17.
- Received \$100.00 from People's Hotel to apply on account.

*The accounts resulting from this posting are illustrated on pages 70-73. The arrangement of the accounts in these illustrations is in the same order as the information will be needed in the preparation of the reports to be provided the owner. The reports to be prepared from these accounts are explained in Chapter VII.

September 1, 19

4	Purchases	1 500	
3	W. A. Gordon, Capital		1 500
	Merchandise on hand at the beginning of business.		
	19		
4	Sales	9 10	
1	People's Hotel		9 10
	1 bbl. flour returned in damaged condition.		
	23		
2	Brown Bros.	12 60	
4	Purchases		12 60
	3 cases canned peaches at \$4 ²⁰ , purchased 7/10, returned per agreement.		
	October 2		
1	James O. Wells	37 56	
2	James C. Wells		37 56
	To correct error in account debited for sale of 7/30		
	20		
3	Brown Bros.	10	
4	Purchases		10
	To correct error in extension for purchase of 7/10.		
	24		
4	Sales	37 5	
1	A. Y. Jordan		37 5
	2 hams sold 7/10 returned.		
	27		
1	W. O. Burns	60	
4	Expense		60
	Stamps used to send merchandise sold this date, by parcel post.		

3. Paid Brown Bros. \$199.10 in full for merchandise purchased on Sept. 23.
4. Sold J. C. Taylor, 3752 Crescent Ave., City, on account, merchandise per Sale No. 12, \$132.55.
Received \$87.65 for sundry cash sales to date.
6. Paid Mrs. W. B. Scott \$2.50 for two brooms which she bought and paid for on the 4th and returned to us per agreement.
Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 13, \$142.50.
7. Received \$50.00 from James O. Wills to apply on account.
Paid Lake View Creamery \$30.00 in full for merchandise purchased Sept. 17.
8. Sold A. Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 14, \$38.50.
9. Paid King & King \$174.75 in full of account.
Paid Brown Bros. \$200.00 to apply on merchandise purchased September 10.
10. Sold A. Y. Jordan, 115 Main St., City, on account, merchandise per Sale No. 15, \$42.50.

Cash

Receipts

19									
Sept.									
	1	3	W. A. Gordon, Capital	Investment	1100.00				
	6	4	Sales	Cash sales	32				
	9	1	A. Y. Jordan	Acct. of sale, $\frac{1}{5}$	10				
	12	1	People's Hotel	On account	30.50				
	13	4	Sales	Cash sales	40				
	18	1	W. O. Burns	Acct. of sale, $\frac{2}{3}$	35				
	20	4	Sales	Cash sales	65				
	24	1	People's Hotel	On account	15				
	26	1	A. Y. Jordan	Full of sale $\frac{1}{5}$	62.50				
	27	4	Sales	Cash sales	44.50				
	29	2	People's Hotel	On account	65				
	30	1	Cash, Dr.	Total receipts	1343.25				
Oct.	1	✓	Balance	On hand				618	
	2	2	James C. Wells	On account	50				
	3	2	People's Hotel	"	100				
	4	4	Sales	Cash sales	87.65				
	7	1	James O. Wills	On account	50				
	11	1	W. O. Burns	Full of sale $\frac{1}{3}$	19.40				
	11	4	Sales	Cash sales	109.80				
	15	2	People's Hotel	On account	50				
			Carried Forward	257.75	466.85			618	

11. Received \$19.40 from W. O. Burns in full for merchandise sold him Sept. 13.
Received \$109.80 for sundry cash sales to date.
13. Paid \$18.50 for repairs in the office.
Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 16, \$92.90.
15. Bought from Lake View Creamery, Dayton, on 20 days' time, merchandise per Purchase No. 10, \$48.00.
Received \$50.00 from People's Hotel to apply on account.
Sold W. O. Burns, Kingston, on account, merchandise per Sale No. 17, \$45.75.
Proved cash (balance, \$257.75) and posted.
16. Bought from Brown Bros., City, on 30 days' time, merchandise per Purchase No. 11, \$216.50.
Received \$129.50 for sundry cash sales to date.
Paid Dick, McMillan & Co. \$381.78 in full of account.
17. Sold J. C. Taylor, 3752 Crescent Ave., City, on account, merchandise per Sale No. 18, \$86.42.
Paid \$5.00 for stamps.
18. Paid Brown Bros. \$98.00, balance due on merchandise purchased Sept. 15.

*Cash**Payments*

Sept.	4	Expense	City and state license	25			
	5	Brown Bros.	Cash purchase	194			
	6	Brown Bros.	Full of purchase $\frac{1}{2}$	79	30		
	13	King & King	On account	109	80		
	20	King & King	Full of account	36	95		
	30	Brown Bros.	Acct. of purchase $\frac{1}{2}$	150			
	30	Expense	Bro's salary, rent $\frac{75.00}{65.00}$	140	25		
	30	Cash Cr.	Total payments			725	25
	30	Balance				618	
Oct.	1	W. A. Gordon, Capital	Withdrew from Capital	200			
	2	Purchases	Freight and drayage	2	25		
	3	Brown Bros.	Full of purchase $\frac{1}{2}$	199	10		
	6	Sales	Merch. returned	2	50		
	7	Lake View Creamery	Full of purchase $\frac{1}{2}$	30			
	9	King & King	Full of account	174	75		
	9	Brown Bros.	Acct. of purchase $\frac{1}{2}$	200			
	13	Expense	Repairs in office	18	50		
				827	10		

Cash				Receipts	
19			Brought Forward	466.85	618
Ost.	16	4	Sales	Cash sales	129.50
	21	4	Expense	Sold stamps	50
	22	2	People's Hotel	Full of sales in Sept.	3.45
	23	1	W. O. Burns	On account	25
	25	2	James C. Wells	Full of account	20.30
	27	4	Sales	Cash sales	136.45
	29	2	People's Hotel	On account	50
	30	1	A. Y. Jordan	Full of sale 7/11	56.25
	31	2	J. C. Taylor	On account	150
	31	4	Sales	Cash sales	87.19
	31	1	Cash Dr	Total receipts	1125.49
Nov.	1	✓	Balance	On hand	291.61

Illustration No. 31, Page 4, Receipts Side of Cash Book for Model Set.

20. Bought from King & King, City, on 30 days' time, merchandise per Purchase No. 12, \$127.65.
Discovered an error of \$10.00 in the calculations for the purchase from Brown Bros. on September 23, and received instructions from them to debit their account with this amount.
21. Sold J. C. Taylor, 3752 Crescent Ave., City, on account, merchandise per Sale No. 19, \$55.40.
Sold a customer stamps for cash, 50c.
22. Received \$3.45 from People's Hotel in full for all merchandise sold them in September, less all credits to date.
Sold James O. Wells, 416 Broad St., City, on account, merchandise per Sale No. 20, \$51.40.
23. Received \$25.00 from W. O. Burns to apply on account.
Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 21, \$162.25.
24. Gave A. Y. Jordan credit for \$3.75, two hams sold him on the 10th and returned per agreement.
Bought from Dick, McMillan & Co., Springfield, on 15 days' time, merchandise per Purchase No. 13, \$117.90.
25. Sold People's Hotel, 165 Willis St., City, on account, merchandise per Sale No. 22, \$116.65.
Received \$20.30 from James C. Wells in full of account.
27. Received \$136.45 for sundry cash sales to date.
Bought from Dawson Bros. & Co., Lebanon, on 30 days' time, merchandise per Purchase No. 14, \$307.55.

Payments

Illustration No. 32, Page 5, Payments Side of Cash Book for Model Set.

- The foregoing instructions include posting all entries, ruling the purchases and sales journal, and the posting of the total purchases, sales, cash receipts and cash payments. The results of the instructions are shown in Illustrations Nos. 25-36 and 38. The Cash account after it is balanced is shown at the top of page 70; it is customary to balance the Cash account at the end of the business year. The work of preparing the reports of the operations of the business showing the facts which Mr. Gordon desires are explained in Chapter VII.

Cash

19	Sept. 30	618.00	C2	1134325	19	Sept. 30	C3	172525
	Oct. 31		C4	112549 246874		Oct. 31	C5	145188 246874
						31 Balance		29161
								246874
	Nov. 1	Balance		29161				
A. Y. Jordan								
					115	Main St. City		
19	Sept. 5		L1	1625	19	Sept. 9	C2	10
	11	56.25	L1	5625		26	C2	625
	Oct. 8		L1	3850		Oct. 24	Returned	375
	10	77.25	L1	4250 3725		30	C4	5625
Peoples Hotel								
					165	Willis St. City		
19	Sept. 8		L1	5935	19	Sept. 12	C2	3050
	16		L1	5140		19	Returned	910
	25		L1	8285		24	C2	1560
						25	Ret. current fund	13820
				19280				19280
W. O. Burns								
						Kingston		
19	Sept. 13	19.40	L1	5440	19	Sept. 18	C2	35
	Oct. 15		L1	4575		Oct. 11	C2	1940 3440
	27		L2	1250		23	C4	25
	27	Postage 33.85	L1	5865				
James O. Wills								
					416	Broad St. City		
19	Sept. 19	44.30	L1	4430	19	Oct. 7	C2	50
	Oct. 2	Sept. 30-acct	L1	3756				
	22		L2	5140				
	28	121.91	L2	3865 3891				

James C. Wells

765 E. 9th St. City

¹⁹ Sept.	22		L	✓	26 05	¹⁹ Oct.	2		Cr	50
	26		L	✓	44 25		2		L	37 56
	30	107 06	L	✓	37 56		25		Cr	20 30
					7 56					27 86

J. C. Taylor

3752 Crescent Ave. City

¹⁹ Oct.	4		L		132 55	¹⁹ Oct.	31		Cr	150
	17		L		86 42					
	21	124.37	L		55 40					
					27 43					

Robert E. Cowan

3175 Burnet Ave. City

¹⁹ Oct.	29	61 83	L		61 83					
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Peoples Hotel

165 Willis St. City

¹⁹ Sept.	25	Balance forward			138 20	¹⁹ Sept.	29		Cr	65
	27	153.45	L	✓	80 25	¹⁹ Oct.	3		Cr	100
					27 45		15		Cr	50
Oct.	6		L		142 50		22		Cr	34 5
	13		L		92 90		29		Cr	50
	23		L		162 25					
	25	464.80	L		116 65					
					51 40					

Brown Bros.

City

¹⁹ Sept.	5		Cr		2194	¹⁹ Sept.	2		P	16 79 30
	6		Cr		279 30		5		P	2194
					2773 30		10		P	6 230
	23	Returned	L	✓	1260		15		P	248
	30		Cr		150		23	10 days 514.50	P	199 10
Oct.	3		Cr		2199 10				P	216 50
	9		Cr		200	Oct.	16	30 "	P	293 60
					561 70			Carried forward	3	
	16	Carried forward								

King & King City

¹⁹ Sept. 13	Cs	- 10 00	¹⁹ Sept. 3	Pi	✓ 136 95
20	Cs	- 36 95	29 10 days	Pi	✓ 174 75
Oct. 9	Cs	174 75	Oct. 20 30 "	Pi	127 65
			28 30 "	Pi	141 37
					269 02

Lake View Creamery
Dartton

¹⁹ Oct. 7	Cs	30	¹⁹ Sept. 17 20 days	Pi	✓ 30
			Oct. 15 20 "	Pi	48
					30.00
					48.00

Dick, Mc Millan & Co
Springfield

¹⁹ Oct. 16	Cs	381 78	¹⁹ Oct. 1 15 days	Pi	381 78
			24 15 "	Pi	117 90
					117.90

Dawson Bros & Co.
Lebanon

			¹⁹ Oct. 27 30 days	Pi	307 55
					307.55

Brown Bros.
City

¹⁹ Oct. 16	Bro't forward	2	561 70	¹⁹ Oct. 16	Bro't forward	2	893 60
18	Cs d	98					223 90
20	Error	81	669 70				

W. J. Gordon, Capital

¹⁹ Oct. 1	Cs	200	¹⁹ Sept. 1	Cs	✓ 1,000
					1300 00
					1,500

Sales

¹⁹ Sept. 19	Dr	910	¹⁹ Sept. 6	Cr	32
Oct. 6	Cr	250	13	Cr	40
24	Dr	375	20	Cr	65
		1,535	27	Cr	445.0
			30	Dr	552.11
					72451
			Oct. 4	Cr	876.5
			11	Cr	1098.0
			16	Cr	1295.0
			27	Cr	1364.5
			31	Cr	8719
			31	Dr	10798.0
					23764.0

Purchases

¹⁹ Sept. 1	Inventory	Dr	500	¹⁹ Sept. 23	Dr	1260
30	1779.50	Pr	1,292.10	Oct. 20	Dr	1260
Oct. 2	Freight & Drayage	Cr	225			
31		Pr	1340.75			
			3135.75			

Expense

¹⁹ Sept. 4		Cr	25	¹⁹ Oct. 21	Stamps	Cr	50
30	165.00	Cr	140.65	27	"	Dr	60
Oct. 13		Cr	185.0				
17		Cr	5				
31	327.40	Cr	140.50				
			528.50				

Illustration No. 36, Page 4 of the Ledger for Model Set.

A MODEL SET.

W. A. Gordon
Trial Balance, September 30, 19

1	Cash	✓ 618		
1	A. Y. Jordan	✓ 56 25		
1	W. O. Burns	✓ 19 40		
1	James O. Wells	✓ 44 30		
2	James C. Wells	✓ 107 86		
2	Peoples Hotel	✓ 153 45		
2	Brown Bros		✓ 51 45	
3	King & King		✓ 17 47 5	
3	Lake View Creamery		✓ 30	
3	W. A. Gordon, Capital		✓ 1500	
4	Sales		✓ 724 51	
4	Purchases	✓ 1779 50		
4	Expense	✓ 165		
		2943 76	2943 76	
		2943 76	2943 76	

Illustration No. 37, Trial Balance of Balances for First Month of Model Set.

W. A. Gordon
Trial Balance, October 31, 19

1	Cash	291 61		
1	A. Y. Jordan	77 25		
1	W. O. Burns	33 85		
1	James O. Wells	121 91		
2	J. C. Taylor	124 37		
2	Robert E. Cowan	61 83		
2	Peoples Hotel	46 43 0		
3	King & King		269 02	
3	Lake View Creamery		48	
3	Dick, Mc Millan & Co.		117 90	
3	Dawson Bros. & Co.		307 55	
3	Brown Bros		223 90	
3	W. A. Gordon, Capital		1300	
4	Sales	1535	2364	
4	Purchases (Inv. 500. ⁰⁰ , Pur 2635 ⁰⁰)	3135 10	2260	
4	Expense	327 40		
		4652 97	4652 97	

Illustration No. 38, Trial Balance for Second Month of Model Set.

The purpose of showing both sides of the Purchases and Sales accounts, the merchandise inventory at the beginning of the fiscal period and purchases during the period is explained in Chapter VII.

Exercise No. 26, Recording Transactions, Posting and Trial Balance.

Record the transactions given below in the purchases, sales and general journals, and the cash book. All purchases and sales except those for cash are "on account" and are entered in the purchases or sales journal; number the entries in each of these journals in regular order, beginning with one.

- April 1. J. N. Fulton invests \$1,500.00 in the radio supply business.
2. Bought from Standard Radio Co., Chicago, supplies, \$681.70.
 3. Paid rent for month, \$45.00, and telephone service, \$15.00.
 4. Sold Davis Bros., City, 100 ft. No. 14 aerial wire, 45c; 1 Willard radio storage battery, \$12.00.
 5. Paid \$365.87 for cash purchase of radio supplies.
 9. Bought from the Radio Service Co., Dayton, supplies, \$962.48.
 12. Paid \$37.50 insurance on stock. (Debit Expense.)
 15. Received for cash sales to date, \$350.60.
 17. Paid \$25.00 for stamps and stationery.
 18. Paid Standard Radio Co. \$38.70, on account.
Received credit from Radio Service Co. for supplies returned, \$20.15.
 19. Sold Caleb Fall, City, 1 Thordarson amplifying transformer, \$4.00; 1 Remler detector panel, \$8.00.
 20. Sold Jacob Dolittle, City, 200 ft. 7-strand aerial wire, \$1.50; 1 doz. aerial insulators, \$3.00; 2 test buzzers, \$1.30; 2 Willard storage batteries, \$24.00; 2 doz. switch points, 60c.
 23. Sold Joe Smith, for cash, 200 ft. No. 14 aerial wire, 90c.
 24. Gave Joe Smith 45c for 100 ft. aerial wire which he returned.
 26. Received \$15.00 from Jacob Dolittle, to apply on account.
 27. Sold A. J. Bowen, Columbus, 1 mounted crystal detector, \$1.95. Debit his account with 75c, postage required on this shipment.
 30. Sold A. F. Shaw, City, 1 complete radio outfit, \$125.00, to be installed under our inspection, installation cost to be paid by him.
Received for cash sales to date, \$414.85.
Paid clerk's salary, \$80.00.

Prove cash (balance, \$1,673.83), rule the cash book and purchases and sales journals, and post all entries including the totals. Arrange the accounts in the ledger as in the Model Set, allowing five lines for each personal account and eight lines for each of the other accounts. Take a Trial Balance of balances.

- May 1. Sold Davis Bros., City, 6 "B" Batteries, 22½ volt, \$11.70; 1 loud speaker, \$15.00; 1 filament rheostat, \$1.25.
2. Bought from Standard Radio Co., Chicago, supplies, \$343.60.
Received for cash sales to date, \$157.81.
Gave the Radio Service Co. \$600.00 to apply on account.
 3. Sold Caleb Fall, City, 1 New Howard rheostat, \$1.10; 6 porcelain V. T. sockets, \$2.70.
Received check from A. J. Bowen in full of account.
Received a bill from the Kelly Electric Co. for \$24.50, installation cost of the radio outfit sold A. F. Shaw on April 30.
Debit A. F. Shaw and credit Kelly Electric Co. in the general journal.
 4. Paid Lawton Express Co. \$26.17, freight and drayage on purchases.
Gave Caleb Fall credit for 45c because one of the porcelain V. T. sockets sold him on the third was defective.
Sold the entire stock of merchandise for \$2,000.00 cash.

Prove cash (balance \$3,208.17), rule the cash book and purchases and sales journals, and post all entries including the totals. Take a Trial Balance, using both sides of the Sales and Purchases accounts and the balances of the other accounts.

Retain the ledger and Trial Balance for use in Exercise No. 40.

QUESTIONS ON THE MODEL SET

These questions refer to Illustrations¹ Nos. 25-38.

1. What do the check marks (✓) at the left of the amounts in the books of original entry, ledger, and Trial Balance for the month of September, indicate?
2. Why are there no check marks at the left of the amounts for the month of October?
3. Why did the Trial Balance September 30 balance when there was an error in one of the accounts as indicated by the adjusting entry in the general journal October 2?
4. Explain the transactions recorded in the account of A. Y. Jordan without referring to a book of original entry.
5. Why is the Expense account credited in the general journal entry of October 27?
6. Does the general journal entry of October 2 change the value of the assets or liabilities of the business?
7. Why is the People's Hotel account not ruled on the same blue line on each side on October 22?
8. Explain the entries in the account of Brown Bros. without referring to a book of original entry.
9. When is payment due for the merchandise purchased from Brown Bros. October 16?
10. Why are both sides of the account with Brown Bros. carried forward and the balance of the account with the People's Hotel carried forward?
11. What indicates that the People's Hotel account is that of a customer and Brown Bros. that of a creditor?
12. What is the balance due on the merchandise sold A. Y. Jordan October 10?
13. Why not forward the totals of both columns of the general journal in the same manner as the totals of the purchases journal and sales journal?
14. Why is the total of each side of the cash book forwarded and not the balance?
15. When is it necessary to forward the totals of a book of original entry?
16. What information is shown in the Cash account which is not shown in the cash book?
17. Why is the double ruling in the cash book on the same blue line on each side?
18. Why is it necessary to write in the cash book the date of the purchase or sale when cash is paid or received to apply on that particular purchase or sale?
19. Why is the cash balance carried down below the double ruling on the debit side of the cash book and entered in the second column?
20. What information of value does the owner of the business obtain from the entries on the debit side of the Sales account?
21. Why is the Purchases account credited in the general journal entry of September 23?
22. Why is the Sales account debited in the general journal entry of October 24?
23. If Sales had been credited for the first transaction of October 23, (a) what accounts would have been affected and (b) how affected?
24. If the owner wished to know the value of merchandise in stock, from what accounts could he ascertain this information?
25. Why is W. O. Burns debited in the general journal entry of October 27?

Chapter VII

BALANCE SHEET AND STATEMENT OF PROFIT AND LOSS

The Purpose of this Chapter is to explain the Balance Sheet and Statement of Profit and Loss—two reports prepared by the bookkeeper for the information of the owner. The illustrations are applicable to the business of W. A. Gordon in the Model Set, Chapter VI. The income tax return for an individual is explained and illustrated in Appendix C.

§ 47. **Fiscal Period.** The owner of a business will want to know from time to time the results of his operations because he has invested cash or other assets in the business with the purpose of making a profit. Since the Federal Government requires a report of the results of the operations of the business for one year in order to ascertain the amount of income tax the business is to pay, the owner usually ascertains the results of operating the business yearly. If the nature of the business is such that the profit should be ascertained more often, however, the owner can obtain this information at such times as he desires, but this does not release him from the yearly report required by the Federal Government. Fiscal period is a bookkeeping term applied to the period of operation for which the profit is ascertained. As explained, this period may be for one year or such part of a year as the owner may designate.

§ 48. **Method of Ascertaining the Profit or Loss.** The profit or loss resulting from the operations of a business is (1) the difference between the proprietorship at the beginning and the proprietorship at the end of a fiscal period, and (2) the difference between the income and the cost for the period. If the value received and the value parted with in each transaction are recorded, the profit or loss will be the same with each of the two methods. When ascertaining the profit or loss by subtracting the proprietorship at the beginning and end of the period, it is necessary to take into consideration withdrawals from capital and additional investments during the period.

The proprietorship of W. O. Crosswhite, a retail grocer, January 1, is \$8,000.00, and on December 31 of the same year, \$11,500.00. If he has not withdrawn part of his invested capital or invested additional capital during the year, his net profit is \$3,500.00; if he had withdrawn \$500.00 from his capital during the year, his net profit would have been \$4,000.00, and if he had invested an additional \$500.00 during the year, his net profit would have been \$3,000.00. If, during the same year, the income resulting from the operations of the grocery business conducted by Mr. Crosswhite is \$6,500.00 and the cost, \$3,000.00, his net profit is \$3,500.00. It is necessary for Mr. Crosswhite to know the amount of the income and cost as well as the net profit, because he must submit this information on his income tax return as explained in Appendix C.

§ 49. **A Merchandise Inventory** is the value of all merchandise in stock at the close of a fiscal period as shown by a written list of this merchandise. The information on this list includes the quantity and description of each kind of merchandise and its value at cost or present market price whichever is the lower.

It is necessary to ascertain the value of the merchandise owned by the business through an inventory at the close of the fiscal period because it is one of the assets and its value is not shown in either the Purchases or the Sales account. The Pur-

chases account shows the cost of the merchandise bought, and the Sales account, the returns from sales, but the value of the merchandise in stock is not shown as a result of this record because the selling price is greater than the cost price.

A unit record of the merchandise purchased and sold may be kept in certain lines of business, such as musical instruments, shoes, clothing, and furniture; but in other lines, such as hardware, groceries, and dry goods, it is not practicable to keep a record of each unit purchased and sold. It is necessary to ascertain the value of merchandise in stock by an inventory at the close of the fiscal period whether or not a record of the units purchased and sold is kept, because of thefts, errors in filling orders, and many other causes which result in the number of units shown by the record not corresponding with the number of units on hand.

An inventory of the following merchandise owned by W. A. Gordon and in stock by actual count at the close of the fiscal period ending October 31, would appear in inventory form as in Illustration No. 39:

Granulated sugar, 1,216 lbs., cost \$4.50 per 100 lbs.; 1,183 lbs. brown sugar, cost \$4.10 per 100 lbs.; 256 lbs. roasted coffee, cost 22c per lb.; 1,802 lbs. bacon, cost 15c per lb.; 8 hams, 183 lbs., cost 17c per lb.; 5 cans, 261 lbs., lard, cost 16c per lb.; 24 doz. cans tomatoes, cost \$1.10 per doz.; 20 doz. cans pineapples, cost \$2.00 per doz.; 18 doz. cans peaches, cost \$1.95 per doz.; 20 doz. cans corn, cost \$1.50 per doz.; 268 lbs. creamery butter, cost 33c per lb.; 60 bbls. Blue Ribbon flour, cost \$5.10 per bbl.; 34 bbls. White Rose flour, cost \$5.25 per bbl.; 25 bbls. Fancy flour, cost \$6.00 per bbl.; 25 bu. beans, cost \$1.60 per bu.; 20 bxs. Werk's soap, cost \$4.00 per box.

W. A. Gordon
Merchandise Inventory, October 31, 19

1216	lbs. Granulated Sugar (per 100#)	4.50	54	72	
1183	" Brown Sugar	4.10	48	50	
256	" Roasted Coffee	.22	56	32	
1802	" Bacon	.15	270	30	
8	Hams, 183 lbs	.17	31	11	
5	cans 261 lbs Lard	.16	41	76	
24	doz. cans Tomatoes	1.10	26	40	
20	" " Pineapples	2.00	40		
18	" " Peaches	1.95	35	10	
20	" " Corn	1.50	30		
268	lbs. Creamery Butter	.33	88	44	
60	bbls Blue Ribbon Flour	5.10	306		
34	" White Rose Flour	5.25	178	50	
25	" Fancy Flour	6.00	150		
25	bu. Beans	1.60	40		
20	bxs. Werk's Soap	4.00	80		
Value of Merchandise on hand.					1477 15

Illustration No. 39, Inventory of Groceries, Model Set.

EXPLANATION. The quantities indicated by the figures at the left were obtained by weighing or counting the articles in stock. The price was ascertained from the invoices. This price includes not only the invoice cost but also the freight cost. The figures at the right were ascertained by multiplying the quantity by the price.

Exercise No. 27, Merchandise Inventory.

Prepare on journal paper an inventory for the following merchandise owned by the Fred B. Jenkins Hardware Co. and in stock December 31:

Nails, 10 kegs 8-d., cost \$4.50 per keg; 15 kegs 10-d. nails, cost \$4.25 per keg; 12 doz. No. 9 hammers, cost \$9.00 per doz.; 7 doz. No. 4 Simmons saws, cost \$10.00 per doz., present market price, \$9.00 per doz.; 5 doz. No. 3 hatchets, cost \$8.00 per doz., present market price \$7.00 per doz.; 50 gal. Lucas paint, cost \$1.75 per gal., present market price, \$1.60 per gal.; 25 gal. varnish, cost \$2.00 per gal.; 150 lbs. white lead, cost 42c per lb.; 5 No. 3 gas stoves, cost \$7.50 each.

Exercise No. 28, Merchandise Inventory.

Prepare on journal paper an inventory for the following merchandise owned by U. R. Underhill Stationery Co., and in stock June 30:

Typewriter desks, 8, cost \$65.00 each; 5 used typewriters, cost \$62.50 each; 7 chairs, cost \$4.50 each; 3 bookkeeper's desks, cost \$27.50 each; 14 loose-leaf ledgers, cost \$16.50 each; 27 sections No. 9 filing cases, cost \$5.60 each; 5 filing cases, cost \$6.50 each; 500 reams typewriting paper, cost 35c per ream, present market price, 38c per ream; 65 reams legal paper, cost 90c per ream, present market price, 97c per ream; 150 doz. pen points, cost 32c per doz.

THE BALANCE SHEET

§ 50. **The Balance Sheet** is a written report of the assets, liabilities, and proprietorship of a business prepared at the close of a fiscal period. The information is obtained from the asset and liability accounts in the ledger (Trial Balance) and the merchandise inventory at the close of the fiscal period. The assets are usually listed as follows: cash, notes receivable (written promises to pay money to the business), accounts with customers, and merchandise inventory. The liabilities are usually listed as follows: notes payable (written promises signed by the business), and accounts with creditors. The accounts should be arranged in the ledger in the order in which they appear on the Balance Sheet.

The Balance Sheet may be prepared in "account" form (Illustration No. 40) or "report" form (Illustration No. 41). Either form is correct, but accountants usually prefer the account form because it shows assets opposite liabilities; this information is of value to the owner of the business in determining his financial condition because the liabilities must be paid out of the assets.

The assets and liabilities of W. A. Gordon as shown by the accounts in his ledger on pages 70, 71 and 72, October 31, are as follows:

Assets:

Cash.....\$291.61

Accounts Receivable:

A. Y. Jordan..... 77.25

W. O. Burns..... 33.85

James O. Wills..... 121.91

J. C. Taylor..... 124.37

Robt. E. Cowan..... 61.83

People's Hotel..... 464.30

Liabilities:**Accounts Payable:**

King & King..... 269.02

Lake View Creamery..... 48.00

Dick, McMillan & Co..... 117.90

Dawson Bros & Co..... 307.55

Brown Bros..... 223.90

Merchandise Inventory, October 31 (Illustration No. 39), \$1,477.15.

A Balance Sheet prepared in account form from this information will appear as in Illustration No. 40, and in report form, as in Illustration No. 41.

BALANCE SHEET.

W. A. Gordon
Balance Sheet, October 31, 19

Assets:				Liabilities:			
Cash	291	61		King & King	269	02	
A. Y. Jordan	77	25		Lake View Creamery	48		
W. C. Burns	33	85		Dick, McMillan & Co.	117	90	
James O. Wells	121	91		Dawson Bros. & Co.	307	55	
J. C. Taylor	124	37		Brown Bros.	223	90	
Robert E. Cowan	61	83		Total Liabilities	966	37	
People's Hotel	464	30		Capital Account:			
Merch. Inventory, Oct. 31	1477	15		W. A. Gordon Capital		1685	90
Total Assets	2652	27		Total Liabilities and Capital		2652	27

Illustration No. 40, Balance Sheet for Model Set, "Account" Form.

EXPLANATION. This illustration shows the Balance Sheet for W. A. Gordon, prepared in "account" form from the accounts in the ledger on pages 70, 71 and 72 (Trial Balance, page 74) and the inventory of merchandise, page 78. The same information is shown in "report" form in the illustration below.

W. A. Gordon
Balance Sheet, October 31, 19

Assets				Liabilities:			
Cash	291	61		King & King	269	02	
A. Y. Jordan	77	25		Lake View Creamery	48		
W. C. Burns	33	85		Dick, McMillan & Co.	117	90	
James O. Wells	121	91		Dawson Bros. & Co.	307	55	
J. C. Taylor	124	37		Brown Bros.	223	90	
Robert E. Cowan	61	83		Total Liabilities	966	37	
People's Hotel	464	30		W. A. Gordon, Present Capital		1685	90
Merch. Inventory, Oct. 31	1477	15		Total Liabilities and Capital		2652	27
Total Assets	2652	27					

Illustration No. 41, Balance Sheet for Model Set, "Report" Form.

Exercise No. 29, Balance Sheet.

Prepare a Balance Sheet in account form for J. J. Hagan, who is engaged in the office supplies business, from the following assets and liabilities as shown by the accounts in his ledger at the close of the fiscal period, December 31:

Assets:

Cash.....	\$357.50
Accounts Receivable:	
L. A. Stallman.....	150.00
W. R. Jones.....	63.50
Sinton Hotel.....	132.65
W. H. Wilson.....	14.50
Robert W. Hill.....	35.00
J. J. Anderson.....	36.18
H. R. Kraus.....	130.00

Liabilities:**Accounts Payable:**

A. Martin Stationery Co.....	\$180.00
Hall Bros.....	127.50
Laurence & Scott.....	205.07
O. L. Robertson.....	192.90
Central Mfg. Co.....	182.55
Globe-Wernicke Co.....	100.00

Merchandise Inventory, December 31, \$865.40.

Exercise No. 30, Balance Sheet.

Prepare a Balance Sheet in account form for C. M. Becket, a hardware merchant, from the following assets and liabilities as shown by the accounts in his ledger at the close of the fiscal period, June 30:

Assets:

Cash.....	\$850.00
Accounts Receivable:	
C. R. Carter.....	50.00
J. A. Smith.....	38.50
John B. Dawes.....	76.19
A. J. Baird & Son.....	39.90
Johnson Construction Co.....	125.50
B. H. Franklin.....	207.90
C. C. Ernst.....	260.00

Liabilities:**Accounts Payable:**

Evans Bros. Hdwe. Co.....	\$160.00
D. D. Bowen.....	350.00
Smith Bros.....	107.60
A. L. Games & Co.....	135.00
Pickering Hardware Co.....	150.00

Merchandise Inventory, June 30, \$442.85.

STATEMENT OF PROFIT AND LOSS.

Exercise No. 31, Balance Sheet.

Prepare a Balance Sheet in report form for C. H. Sheller, an automobile dealer, from the following assets and liabilities as shown by the accounts in his ledger at the close of the fiscal period, July 31:

Assets:

Cash.....	\$6,741.85
-----------	------------

Accounts Receivable:

J. W. Hayes.....	44.75
J. J. Davis.....	52.40
Robert Humphries.....	452.00
A. L. Arnot.....	9.65
T. M. Bowen.....	55.15

Liabilities:

Accounts Payable:

Packard Automobile Co.....	\$1,500.00
Warner-Lenz Co.....	152.50
Goodyear Rubber Co.....	250.00
Citizens Motor Car Co.....	350.00

Merchandise Inventory, July 31, \$6,181.75.

STATEMENT OF PROFIT AND LOSS

§ 51. The Statement of Profit and Loss is a written report of the income, costs, and net profit or loss resulting from the operations of a business during a fiscal period, prepared at the close of the period. This information is obtained from the income and cost accounts in the ledger (Trial Balance) and the inventory of merchandise at the close of the period. The report should show (1) the net sales, (2) the cost of the merchandise sold, (3) the profit made by selling merchandise, (4) the operating cost of the business, and (5) the net profit or loss. The accounts should be arranged in the ledger in the order in which they appear on the Statement of Profit and Loss so that this report can be prepared from the Trial Balance without rearranging the accounts thereon.

It might seem that the title of this report should be "Statement of Income and Cost" because the information is obtained from the income and cost accounts in the ledger. The title used is approved by accountants possibly because "profit" refers to net income, that is, gross income less costs, and "loss" refers to losses that may occur in connection with the operations of the business.

The income, costs, and beginning inventory of W. A. Gordon, as shown by the accounts in his ledger October 31, page 73, are as follows:

Income:

Sales of merchandise.....	\$2,364.00
Less merchandise returned by customers.....	15.35

Costs:

Inventory, September 1 (beginning).....	500.00
Purchases of merchandise during the period.....	2,635.10
Less merchandise returned to creditors.....	22.60
Expense (operating cost) for the period.....	327.40

The merchandise inventory at the close of the fiscal period, October 31 (Illustration No. 39), is \$1,477.15.

A Statement of Profit and Loss prepared in report form from this information will appear as in Illustration No. 42.

W. A. Gordon
Statement of Profit & Loss, October 31, 19

<i>Returns from Sales:</i>			
<i>Gross Sales</i>			2364
<i>Deduct Sales Returns</i>			1535
<i>Net returns from mdse. sold</i>			234865
<i>Cost of Sales:</i>			
<i>Mdse. Inventory 7/1 500.00</i>			
<i>Add Purchases</i>	<u>263510</u>	313510	
<i>Deduct Purchases Returns</i>	<u>2260</u>	311250	
<i>" Mdse. Inventory, 10/31</i>		<u>147715</u>	
<i>Net cost of mdse. sold</i>			163535
<i>Gross Profit on Sales</i>			71330
<i>Operating Cost:</i>			
<i>Expense</i>			32740
<i>Net Profit</i>			38590
<i>Proof</i>			
<i>W. A. Gordon, Present Capital (Bal. Sheet)</i>			168590
<i>W. A. Gordon's Net Investment</i>	1300		
<i>Add Net Profit</i>		<u>38590</u>	
		<u>168590</u>	<u>168590</u>

Illustration No. 42, Statement of Profit and Loss for Model Set, "Report" Form.

EXPLANATION. This illustration shows the Statement of Profit and Loss (income and cost) for W. A. Gordon, prepared in "report" form from the income and cost accounts in the ledger on page 73 (Trial Balance, page 74) and the inventory of merchandise, page 78. The same information may be shown in "account" form in the same manner as in the Balance Sheet, Illustration No. 40. Sales Cr. minus Sales Dr. equals net returns from sales; Purchases Dr. minus Purchases Cr. equals net purchases; net purchases minus inventory at the close of the fiscal period equals cost of merchandise sold; net returns from sales minus cost of merchandise sold equals profit made by selling merchandise; profit made by selling merchandise minus Expense Dr. equals net profit. The "Proof" shown on this statement is explained in § 52.

Exercise No. 32, Statement of Profit and Loss.

Prepare a Statement of Profit and Loss for L. M. Hazen, a retail grocer, from the following information obtained from the accounts in his ledger at the close of the fiscal period, December 31:

Income:	
Sales of merchandise.....	\$685.29
Less merchandise returned by customers.....	37.10
Costs:	
Inventory, July 1 (beginning).....	801.25
Purchases of merchandise during the period.....	489.50
Less merchandise returned to creditors.....	24.35
Expense (operating cost) for the period.....	78.50
The inventory of merchandise, December 31, is \$862.45.	

Exercise No. 33, Statement of Profit and Loss.

Prepare a Statement of Profit and Loss for A. Reagan, a retail jeweler, from the following information obtained from the accounts in his ledger at the close of the fiscal period, March 31:

Income:	
Sales of merchandise.....	\$1,016.68
Less merchandise returned by customers.....	20.10
Costs:	
Inventory, January 1 (beginning).....	1,216.31
Purchases of merchandise during the period.....	458.90
Less merchandise returned to creditors.....	21.11
Expense (operating cost) for the period.....	154.70
The inventory of merchandise, March 31, is \$1,127.36.	

Exercise No. 34, Statement of Profit and Loss.

Prepare a Statement of Profit and Loss for C. H. Sheller, an automobile dealer, from the following information obtained from the accounts in his ledger at the close of the fiscal period, July 31:

Income:	
Sales of merchandise.....	\$4,907.54
Less merchandise returned by customers.....	101.32
Costs:	
Inventory, January 1 (beginning).....	5,000.00
Purchases of merchandise during the period.....	4,506.96
Less merchandise returned to creditors.....	210.11
Expense (operating cost) for the period.....	406.07
The inventory of merchandise, July 31, is \$6,181.75.	

§ 52. Relation Between the Two Reports. The Balance Sheet and Statement of Profit and Loss have been discussed independent of each other because the purpose of the discussion was to explain the nature of each report. There is a relation, however, between these two reports because the information is obtained from the accounts which show the results of recording business transactions completed by a business during a fiscal period.

If all the accounts on pages 70, 71, 72 and 73 are checked with those accounts used in preparing the Balance Sheet (Illustration No. 40) and the Statement of Profit and Loss (Illustration No. 42), it will be observed that the only account not appearing on either of the two reports is that with W. A. Gordon, Capital; also that the Balance Sheet shows the capital of W. A. Gordon as a different amount from that shown by his Capital account in the ledger. The reason his Capital account as it appears at the close of the fiscal period is not shown on either report is that his proprietorship has increased through the operations of the business; in this case the increase is \$385.90, the difference between the net investment and the proprietorship at the close of the period, also the difference between the income and cost.

Because of this relation between the two reports, the bookkeeper can prove the correctness of each report before submitting it to the owner of the business. A proof of the reports in Illustrations Nos. 40 and 42 is given below the Statement of Profit and Loss, Illustration No. 42. If desired, this same proof may be shown in connection with the Balance Sheet.

It is customary to show assets, liabilities, and proprietorship on the Balance Sheet, and income, costs, and the net profit on the Statement of Profit and Loss; hence the proof of the two reports may be made separate from the reports or in connection with one of them.

Exercise No. 35, Balance Sheet and Statement of Profit and Loss.

Prepare a Balance Sheet in report form and a Statement of Profit and Loss from the following Trial Balance and inventory of merchandise, May 31:

Cash.....	\$2,192.35	
Novelty Gift Shop.....	764.50	
Wharton & Co.....	810.30	
Timmich Art Co.....		\$ 743.90
Sadler Printing Co.....		956.30
American Paper Mills.....		374.05
Counts Bros.....		78.98
T. B. Stone, Capital.....		2,000.00
Sales.....	10.10	2,399.17
Purchases (Inv. 5/1, \$1,012.75; Pur. \$1,608.70)	2,621.45	26.30
Expense.....	180.00	
	<u>\$6,578.70</u>	<u>\$6,578.70</u>

Merchandise Inventory, May 31, \$826.80.

Exercise No. 36, Balance Sheet and Statement of Profit and Loss.

Prepare a Balance Sheet in report form and a Statement of Profit and Loss from the following Trial Balance and inventory of merchandise, June 30:

Cash.....	\$2,330.51	
Rogers Seed Market.....	535.65	
Terry Grocery Co.....	1,156.20	
Farmers Exchange.....	269.49	
Evergreen Flower Shop.....	282.90	
A. R. Trimble.....	661.76	
Brookville Nurseries.....		\$2,364.09
Empire Seed Co.....		1,327.84
L. D. R. Howland, Capital.....		2,500.00
Sales.....	32.01	2,595.20
Purchases (Inv. 6/1, \$906.75; Pur. \$2,390.20)	3,296.95	61.13
Expense.....	282.79	
	<u>\$8,848.26</u>	<u>\$8,848.26</u>

Merchandise Inventory, June 30, \$740.22.

QUESTIONS

1. If Robert Brown pays \$5,000.00 cash for a grocery business on January 1, 1920, and sells it for \$6,500.00 cash on December 31, 1921, does this indicate that the net profit resulting from the operations of the business is \$1,500.00?
2. On June 30, 1921, George A. Clark, who owns and operates a gasoline service station, wishes to borrow \$2,000.00 from the bank and is requested to make a report to the bank of the financial condition of his business. Would the bank require a Balance Sheet or a Statement of Profit and Loss? What information would it require?
3. What is A. L. Day's profit or loss for the year 1922 if his proprietorship at the beginning of the year is \$3,000.00; investments during the year, \$1,000.00; withdrawals during the year, \$500.00; and his proprietorship at the end of the year is \$5,000.00?

4. October 31, 1921, the profit and loss accounts of J. B. Sullivan as shown by the Trial Balance taken on that date are as follows: General Expense, \$857.50; Selling Expense, \$1,252.80; Delivery Expense, \$609.75; Sales, Dr., \$165.60, Cr., \$3,875.92; Purchases, Dr., \$1,888.95, Cr., \$32.50. The merchandise inventory is \$561.12. Has his business been operated at a profit or a loss? State the amount of the profit or loss.
5. L. J. Strong has been offered the grocery business at 762 Main St. He wishes to know that the merchandise inventory submitted to him by the present owner is correct and asks you to verify it. How would you proceed in making the verification? Why is it necessary to know the value of the merchandise in stock before ascertaining the profit or loss for a fiscal period?
6. If you were the bookkeeper for a business engaged in the sale of Victrolas and Victrola records, could you devise a plan whereby a record could be kept of each article purchased and sold?
7. If such a plan were effected, would the number of units of each kind on hand, as shown by the record, be equal to the number of units in stock, as shown by actual count, at the close of the fiscal period?
8. Name some conditions that might cause a discrepancy between the record and the actual stock on hand.
9. If merchandise which cost \$800.00 is inventoried at \$600.00, the present market price, what effect will this have on the net profit for the period?
10. If merchandise is inventoried at present market value when this is less than the cost value, why is it not inventoried at present market value when this is greater than the cost?
11. Can you name a condition under which it would be advisable to use the present market value even though this should be greater than the cost?
12. What information does the owner of a business obtain from the Balance Sheet that he can not obtain from the accounts in the ledger?
13. What information does the owner of a business obtain from the Statement of Profit and Loss which he can not obtain from the accounts in the ledger?
14. Why is "Cash" listed first on the Balance Sheet?
15. How does the owner of a business expect to pay the liabilities of his business?
16. Name two forms in which the Balance Sheet may be prepared.
17. Which is considered the better of the two forms? State reasons for answer.
18. If the Sales account shows a debit of \$1,500.00 and a credit of \$6,000.00, what does this indicate?
19. If the net returns from sales are \$4,565.50 and the expense of operating the business is \$4,375.00, what does this indicate?
20. If the total assets are \$7,682.50 and the total liabilities \$6,552.90, what does this indicate?
21. If the total assets are \$10,500.00 and the total liabilities \$1,500.00, what does this indicate?
22. Would it be practicable for a department store to make a Balance Sheet and Statement of Profit and Loss at the close of each month? Why?
23. Why is it necessary for each business concern in the United States to have a Balance Sheet and a Statement of Profit and Loss prepared at least once each year?
24. What information can the owner obtain from his Balance Sheet which will be of assistance to him in securing credit from other business concerns?
25. Why is it that the difference between the total assets and total liabilities equals the net investment plus the net profit?

Chapter VIII

CLOSING THE LEDGER

The Purpose of this Chapter is to explain and illustrate the process of closing the ledger at the end of a fiscal period. It is customary to close the ledger at the end of a fiscal period in order that the profit or loss resulting from the operations of the business during the period may be credited or debited to the owner's account, and in order that the income and cost accounts may be in balance at the beginning of the next period. The illustrations are applicable to the business of W. A. Gordon in the Model Set, Chapter VI.

§ 53. **Closing the Ledger** is a bookkeeping term applied to the process of transferring the net profit or net loss to the owner's Capital account at the close of a fiscal period. This process requires the closing of all income and cost accounts which appear on the Statement of Profit and Loss. As explained in § 34, the owner's interest in the business consists of the assets invested at the beginning of the business, subsequent investments, and the net profit resulting from the operations of the business, less withdrawals from the investment, and the net loss, if the business has been operated at a loss. The debits and credits to the owner's Capital account will show the investments and withdrawals, but will not show the profit or loss resulting from the operations of the business until the ledger has been closed. For this reason, it is customary for the bookkeeper or accountant to close all accounts shown on the Statement of Profit and Loss at the close of a fiscal period and to debit or credit the owner's Capital account with the loss or profit reported to the owner on the Statement of Profit and Loss.

§ 54. **Accounts Required in Closing the Ledger.** Two accounts in addition to those discussed in the preceding chapters are required in closing the ledger: one to show the value of the merchandise inventory and the other to show the operating cost, special losses, gross profit on sales, special profits, and net profit; the former account is usually given the title "Inventory" or "Merchandise Inventory", and the latter, "Profit and Loss". Other accounts may be required; these will be explained and illustrated as they are needed in connection with the discussion of the adjusting and closing entries.

INVENTORY ACCOUNT

§ 55. **The Purpose of this Account** is to show the value of the merchandise on hand at the close of the fiscal period as indicated by the merchandise inventory. It is necessary to show the value of the inventory in an account in the ledger because it is shown as one of the assets on the Balance Sheet.

Debit the Inventory Account:

¶ 1. At the close of each fiscal period, with the value of the merchandise inventory at the close of the period.

Credit the Inventory Account:

¶ 2. At the beginning or close of each fiscal period, with the value of the merchandise inventory at the close of the preceding fiscal period as indicated by the entry on the debit side.

¶ 3. *The Balance of this Account* shows the value of the merchandise inventory at the close of the fiscal period.

PROFIT AND LOSS ACCOUNT

§ 56. **The Purpose of this Account** is to show the operating cost, special losses, principal income, and special profits for the fiscal period as shown by the Statement of Profit and Loss. No transactions are recorded in this account, the debits and credits being formed by transferring to it the balances of the profit and loss accounts shown on the Statement of Profit and Loss. If desired, the balances of these accounts could be closed direct into the owner's Capital account, but it is considered the better practice to have one account in the ledger which summarizes the facts shown on the Statement of Profit and Loss. This account is opened only at the close of the fiscal period, and when the balances of all the profit and loss accounts have been transferred to it and its balance transferred to the owner's Capital account, it is ruled and remains in balance until the close of the next fiscal period.

Direct profits or losses that occur during the fiscal period should not be credited or debited to the Profit and Loss account, but to a special account, the name of which should indicate the nature of the profit or loss, as "Profit on Sales of Real Estate", "Loss on Stolen Typewriter", "Loss on Delivery Truck", etc.

Debit the Profit and Loss Account:

- ¶ 1. At the close of each fiscal period, with the balance of the Expense account or accounts.
- ¶ 2. At the close of each fiscal period, with the balance of each account which shows a loss.

Credit the Profit and Loss Account:

- ¶ 3. At the close of each fiscal period, with the gross profit on sales.
- ¶ 4. At the close of each fiscal period, with the balance of each account which shows a profit.

¶ 5. *The Balance of the Profit and Loss Account* shows the net profit or net loss for the fiscal period, which is the same as the "Net Profit" or "Net Loss" shown on the Statement of Profit and Loss. This balance is debited or credited to the owner's Capital account.

The student may wonder why the account is not named "Loss and Profit", or "Loss and Gain", because the losses are recorded on the debit side and the gains or profits on the credit side. The title "Profit and Loss" is not arbitrary, and "Loss and Gain" may be used if desired. The title "Profit and Loss", however, is preferred by accountants because the account is a summary of those accounts used in connection with the preparation of the Statement of Profit and Loss.

CLOSING ENTRIES

§ 57. **Entries to Close the Ledger.** Five or more entries are necessary to close the ledger as follows: (1) to record the merchandise inventory at the close of the fiscal period; (2) to close the Purchases account; (3) to close the Sales account; (4) to close the Expense account; (5) to close the Profit and Loss account. A separate entry is required to close each account which shows an income or a cost, hence the number of entries will depend on the number of accounts to be closed. The information for these entries is obtained from the Statement of Profit and Loss, hence this statement is used as a guide in closing the ledger.

The first entry may be regarded as an adjusting entry required to show in the ledger the value of an asset used in the preparation of the Balance Sheet, or as one of the entries necessary in the process of closing the ledger. (§ 46, ¶¶ 4 and 5.)

§ 58. **Methods of Closing the Ledger.** The five or more closing entries are of the same nature as entries for transactions which occur in the regular operations of the business in that each entry requires an account debited and an account credited, the values being the same. These entries may be made direct in the ledger accounts or in the general journal and posted to the ledger in the same manner as transactions. When entries are made in the general journal and posted

to the ledger, the process is known as the "journal entry method" of closing the ledger; when the adjusting entries are made direct in the ledger, the process of closing is referred to as the "direct method" of closing the ledger. Both methods of closing the ledger will be discussed and illustrated to emphasize the fact that the final results are the same no matter which method is used.

The student might conclude from the foregoing discussion that the direct method of closing is used when the transactions are recorded direct in the ledger, and the journal entry method of closing when the transactions are recorded in books of original entry and posted to the ledger. This is not true in practice, however, because many bookkeepers prefer the direct method of closing even though the transactions are recorded in books of original entry and posted. It is quite evident that the journal entry method is the better because it facilitates auditing by providing a record of the closing entries in a book of original entry.

§ 59. Journal Entry Method. When the closing entries are made in the journal, they are recorded in the same manner as those necessary to record transactions. All the entries are made under date of the last day of the fiscal period. The five journal entries required to close the ledger of W. A. Gordon (Model Set) on pages 70-73 are shown in the illustration on page 90. The posting of these closing entries is shown in the illustrations on pages 91 and 92; pages 70 and 71 are not repeated because none of the accounts on these two pages are affected by the closing entries. An analysis of the closing entries is given on pages 94, 95 and 96.

§ 60. Direct Method of Closing. When the closing entries are made direct in the ledger and not in the journal, they are recorded in the same manner as transactions (§§ 19, 29 and 35), except it is customary to use red ink in the entry which balances an account. The ledger page is given in each entry for reference. The entries are made under date of the last day of the fiscal period. The process of closing the ledger of W. A. Gordon (Model Set) on pages 70-73 by the direct method is explained and illustrated in Appendix B.

The direct method of closing is illustrated in Appendix B, separate from the journal entry method in this chapter to avoid confusion. The student should compare the two methods because a knowledge of both is necessary to a thorough understanding of each. The final results are the same with either method, but preference is given to the journal entry method in this text because it is preferred and recommended by practicing accountants. The reason for this preference is that the entries in the journal facilitate auditing. Before auditing a ledger which has been closed by the direct method, it is necessary for the auditor to prepare journal entries so that he may know that each entry has been posted.

§ 61. Balancing an Account. When it is desired to rule an account which does not balance and carry the balance down below the ruling on the same page or forward it to a new page, the process is referred to as balancing an account. This is effected by entering the balance on the smaller side under the date on which the account is balanced and ruling the account. It is customary to use red ink for the date, figures and the ruling, but its use is not arbitrary. The balance is brought down with black ink on the opposite side of the account below the ruling or under the title of the account on a new page. The method of balancing the Cash account is shown on page 70 and the proprietor's Capital account on page 91.

§ 62. A Post-closing Trial Balance is a list of the open accounts in the ledger with the balance set opposite the name of each account, prepared after all the adjusting and closing entries have been made in the accounts. The facts shown on this Trial Balance are the same as those shown on the Balance Sheet and should be checked with it before the Balance Sheet is submitted to the owner for his approval. This Trial Balance is necessary in order that the bookkeeper may know that the accounts in the ledger agree with the facts shown on the Balance Sheet, and that the ledger is in balance before the transactions performed in the next fiscal period are recorded.

October 31, 19

4	Inventory	1477 15	
4	Purchases		1477 15
	Adjust Inventory at the close of the fiscal period.		
	31		
4	Sales	1635 35	
4	Purchases		1635 35
	To transfer the cost of sales from the Purchases account to the Sales account.		
	31		
4	Sales	713 30	
5	Profit and Loss		713 30
	To transfer the gross profit on sales from the Sales account to the Profit and Loss account.		
	31		
5	Profit and Loss	327 40	
4	Expense		327 40
	To close the Expense account into the Profit and Loss account.		
	31		
5	Profit and Loss	385 90	
3	W. A. Gordon, Capital		385 90
	To transfer the net profit from the Profit and Loss account to the Capital account.		

Illustration No. 43, Page 2 of the General Journal for Model Set.

EXPLANATION. This illustration shows the five entries (§ 57) to close the ledger for W. A. Gordon, Model Set, made in journal form (§ 59). The information is obtained from the Statement of Profit and Loss, Illustration No. 42. These entries are analyzed and further explained on pages 94, 95 and 96.

King & King City

¹⁹ Sept. 13	C3	100	¹⁹ Sept. 3	P1	136.95
20	C3	36.15	29 10 days	P1	174.75
Oct. 9	C3	174.75	Oct. 20 30 "	P1	127.65
			28 30 " 269.02	P1	141.37 269.02

Laird & Blair Creamery

Dayton

¹⁹ Oct. 7	C3	30	¹⁹ Sept. 17 20 days	P1	30.00
			Oct. 15 20 " 48.00	P1	48

Dick, McMillan & Co

Springfield

¹⁹ Oct. 16	C5	381.78	¹⁹ Oct. 1 15 days	P1	381.78
			24 15 " 117.90	P1	117.90

Dawson Bros & Co.

Lebanon

¹⁹ Oct. 27	30 days	307.55	P1	307.55
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Brown Bros.

City

¹⁹ Oct. 16	Bro't forward	561.70	¹⁹ Oct. 16	Bro't forward	2 893.60
18	C5	98		2.23.70	
20	Error	669.70			

W. A. Gordon, Capital

¹⁹ Oct. 1	C3	200	¹⁹ Sept. 1	C2	1000
21	Interest	1.12	1	1300.00	1,500
			31	Profit & Loss	385.90
		1885.90			1885.90
			Nov. 1	Present Capital	✓ 1685.90

Illustration No. 44, Page 3 of the Ledger for Model Set.

EXPLANATION. This page is the same as page 72 except the Capital account has been credited with the net profit and is balanced as explained on page 93. Pages 70 and 71 are not repeated here because they are not affected by the closing entries.

CLOSING ENTRIES POSTED.

Sales

¹⁹ Sept. 19		Dr	1	910	¹⁹ Sept. 6		Cr	✓	32
Oct. 6		Cr	3	250	13		Cr	✓	40
24		Dr	1	375	20		Cr	✓	65
31	Cost of Sales	Dr	2	1635.35	27		Cr	✓	44.50
31	Profit on Sales	Dr	2	273.23%	30	724.51	Dr	✓	552.61
					Oct. 4		Cr		87.65
					11		Cr		109.80
					16		Cr		129.50
					27		Cr		136.45
					31		Cr		87.19
					31		Dr		1079.80
									236.40
				236.4					236.4

Inventory

¹⁹ Oct. 31	Midse Inv. 1915	Dr	2	1477.15
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Purchases

¹⁹ Sept. 1	Inventory	Dr	1	500	¹⁹ Sept. 23		Dr	✓	1260
30	1779.00	Dr	1	1779.00	Oct. 20		Dr		10.00
Oct. 2	Freight & Drayage	Cr	3	2.25	31	Inventory	Dr		1477.15
					31	Cost of Sales	Dr		1635.35
									3135.10
				3135.10					

Expense

¹⁹ Sept. 4		Cr	3	25	¹⁹ Oct. 21	Stamps	Cr	4	50
30	165.00	Cr	3	140	27	"	Dr	1	6.00
Oct. 13		Cr	3	18.50	31	Profit & Loss	Dr	2	327.40
17		Cr	5	5					
31	327.40	Cr	5	140					
				328.50					328.50

Illustration No. 45, Page 4 of the Ledger for Model Set.

EXPLANATION. This page is the same as page 73 except the journal entries on page 90 have been posted and the accounts "in balance" have been footed and ruled. Pages 72 and 73 would appear the same as pages 91 and 92 if the closing entries had been posted to them.

Profit and Loss

19	Oct. 31	Expense Dr.	327 40	19	Oct. 31	Profit on Sales Cr.	713 30
	31	W. A. Gordon, Cap. Dr.	385 90				
			713 30				713 30

Illustration No. 46, Profit and Loss Account, Model Set.

The above account would be opened on page 5 of the ledger for the Model Set, the first four pages being full as shown on pages 70, 71, 91 and 92. This account is the result of closing the Purchases, Sales and Expense accounts; the balance has been transferred to W. A. Gordon, Capital, as shown in the illustration at the bottom of page 91.

BALANCING THE CAPITAL ACCOUNT

If desired, the owner's Capital account may be ruled and his present capital (proprietary interest in the business) carried down under date of the beginning of the next fiscal period. If this plan is followed, the present capital is entered on the debit side with red ink, and the balance carried down on the credit side under date of the beginning of the next fiscal period as in the illustration at the bottom of page 91.

POST-CLOSING TRIAL BALANCE

W. A. Gordon
Post-Closing Trial Balance, October 31, 19

1	Cash	291 61	
1-2	Accounts Receivable	883 51	
3	Accounts Payable		966 37
3	W. A. Gordon, Capital		1685 90
4	Inventory	1477 15	
		2652 27	2652 27
		2652 27	2652 27

Illustration No. 47, Post-closing Trial Balance for Model Set.

This Trial Balance is made from the ledger accounts on pages 70, 71, 91 and 92; the Accounts Receivable and Accounts Payable are each shown in one amount because these were not affected by the closing entries. The accounts are arranged in the same order as the accounts appear in the ledger. The facts on this Trial Balance are the same as those shown by the Balance Sheet. The post-closing Trial Balance proves that the ledger is in balance after the closing entries are posted.

Combined Journal Entry

If desired, the accounts used in making the Statement of Profit and Loss may be closed with their balances by a combined journal entry. The journal entry at the right shows this method of closing the accounts which were closed by the five separate entries on page 90. This form of closing is not recommended by accountants because the Profit and Loss account is omitted. It is desirable to have in the ledger a summary of all the accounts showing a profit or loss such as that provided by the Profit and Loss account, because this information is very valuable for statistical purposes. The student will understand this better after he is more familiar with the accounting procedure developed later in the course.

	Inventory	31	1477 15	
	Sales		2348 65	
	Purchases			3112 50
	Expense			327 40
	W. A. Gordon, Capital			385 90

ANALYSIS OF CLOSING ENTRIES ON PAGE 90

The First Entry is that required to record the merchandise inventory at the close of the fiscal period. This entry is necessary because the cost of sales is ascertained on the Statement of Profit and Loss by subtracting the inventory at the close of the fiscal period from the net purchases. The Inventory account is debited to record the asset; the Purchases account is credited for the inventory so that when it is posted, the subtraction will be indicated. It is customary to write "Mdse. Inv." in the explanation column of the Inventory account, and "Inventory" in the explanation column of the Purchases account.

The illustration at the right shows the Purchases account at the close of the fiscal period, the journal entry to record the inventory at the close of the period, and the Inventory and Purchases accounts as they appear after the journal entry has been posted.

Purchases			
19	Oct. 31	3,135.10	19
			Oct. 31
			22.60

October 31, 19			
4	Inventory		1477.15
4	Purchases		1477.15
	Mdse. Inventory at the close of the fiscal period		

Inventory			
19	Oct. 31	Mdse. Inv. fr	1477.15

Purchases			
19	Oct. 31	3,135.10	19
			Oct. 31
			22.60
			31 Inventory fr 1477.15

The Second Entry is that required to transfer the balance of the Purchases account to the Sales account. This entry is necessary because the profit on sales is ascertained on the Statement of Profit and Loss by subtracting the cost of merchandise sold from the net sales. The Sales account is debited for the cost of sales so that when it is posted, the subtraction will be indicated; Purchases is credited because this account shows the cost of sales. When this entry is posted, the Purchases account will balance and be ruled, and the balance of the Sales account will show the net profit on sales as shown by the Statement of Profit and Loss. It is customary to write "Cost of Sales" in the explanation column of each of these accounts.

The illustration at the right shows the Sales and Purchases accounts before the second entry has been posted, the journal entry to close the Purchases account into the Sales account, and the Sales and Purchases accounts after this journal entry has been posted. The balance of the Sales account now shows the net profit made by selling merchandise because the credit side shows sales and the debit side cost.

Sales			
19	Oct. 31	15.35	19
			Oct. 31
			236.4

Purchases			
19	Oct. 31	3,135.10	19
			Oct. 31
			22.60
			31 Inventory fr 1477.15

October 31, 19			
4	Sales		1635.35
4	Purchases		1635.35
	To transfer the cost of sales from the Purchases account to the Sales account.		

Sales			
19	Oct. 31	15.35	19
			Oct. 31
			236.4
	31 Cost of Sales fr	1635.35	

Purchases			
19	Oct. 31	3,135.10	19
			Oct. 31
			22.60
			31 Inventory fr 1477.15
			31 Cost of Sales fr 1635.35
		3,135.10	

The Third Entry is that required to transfer the balance of the Sales account to the Profit and Loss account. This entry is necessary because it is customary to show in the ledger a summary of the facts shown by the Statement of Profit and Loss. Sales is debited because this account shows the profit on sales; the Profit and Loss account is credited because this account is credited for all income. When this entry is posted, the Sales account will balance and be ruled, and the Profit and Loss account will show the profit on sales. It is customary to write "Profit on Sales" in the explanation column of each of these accounts.

The illustration at the right shows the Sales account before the third entry has been posted, the journal entry to close the Sales account into the Profit and Loss account, and the Sales and Profit and Loss accounts after this journal entry has been posted. The profits and losses could be closed direct into the proprietor's account instead of Profit and Loss as explained in § 56.

Sales			
Oct. 31	Oct. 31		
31	1635 35	2364	
October 31, 19			
4 Sales		713 30	
5 Profit and Loss			713 30
To transfer the gross profit on sales from the Sales account to the Profit and Loss account			
Sales			
Oct. 31	Oct. 31		
31	1635 35	2364	
31	713 30		
	2364		2364
Profit and Loss			
	Oct. 31		
	31	713 30	

The Fourth Entry is that required to transfer the balance of the Expense account to the Profit and Loss account. This entry is necessary because the net profit is ascertained on the Statement of Profit and Loss by subtracting the expense from the profit on sales. The Profit and Loss account is debited so that when it is posted, the subtraction will be indicated; the Expense account is credited because this account shows the expense for the period. When this entry is posted, the Expense account will balance and be ruled, and the balance of the Profit and Loss account will show the net profit. It is customary to write "Profit and Loss" in the explanation column of the Expense account, and "Expense" in the explanation column of the Profit and Loss account.

The illustration at the right shows the Profit and Loss and the Expense accounts before the fourth entry has been posted, the journal entry to close the Expense account into the Profit and Loss account, and the Profit and Loss and the Expense accounts after this entry has been posted.

Profit and Loss			
	Oct. 31		
	31	713 30	
Expense			
Oct. 31	Oct. 31		
	328 50		110
October 31, 19			
5 Profit and Loss		327 40	
4 Expense			327 40
To close the Expense account into the Profit and Loss account			
Profit and Loss			
Oct. 31	Oct. 31		
31	327 40	713 30	
Expense			
Oct. 31	Oct. 31		
	328 50		110
		327 40	
	328 50		328 50

The Fifth Entry is that required to transfer the balance of the Profit and Loss account to the proprietor's Capital account. This entry is necessary because the purpose of closing the ledger is to transfer the net profit to the proprietor's account. The Profit and Loss account is debited because this account shows the net profit; the proprietor's Capital account is credited because this profit is equivalent to an additional investment. When this entry is posted, the Profit and Loss account will balance and be ruled, and the proprietor's Capital account will show his present proprietorship as shown by the Balance Sheet. It is customary to write the name of the proprietor's Capital account in the explanation column of the Profit and Loss account, and "Profit and Loss" in the explanation column of the proprietor's account.

The illustration at the right shows the Profit and Loss account and the account with W. A. Gordon, Capital, before the fifth entry has been posted, the journal entry to close the Profit and Loss account, and the Profit and Loss and W. A. Gordon Capital accounts after this entry has been posted.

If desired, the proprietor's Capital account may be balanced and ruled as explained on page 93 and illustrated at the bottom of page 91; this plan is usually followed.

Profit and Loss				
Oct. 31	Expense Dr.	327 40	Oct. 31 Profit on Sales Cr.	713 30
W. A. Gordon, Capital				
Oct. 31		200	Oct. 31	15000
October 31, 19				
5	Profit and Loss		355 90	
3	W. A. Gordon Capital			355 90
To transfer the net profit from the Profit and Loss account to the Capital account.				
Profit and Loss				
Oct. 31	Expense Dr.	327 40	Oct. 31 Profit on Sales Cr.	713 30
31	W. A. Gordon Capital Cr.	355 90		
		713 30		713 30
W. A. Gordon Capital				
Oct. 31		200	Oct. 31	15000
			31 Profit and Loss Cr.	355 90

Closing the Inventory Account

If desired, the inventory of merchandise at the close of the fiscal period may be transferred to the Purchases account at the beginning of the next fiscal period. If it is not transferred to the Purchases account at the beginning of the period, then it will be necessary to transfer it to this account at the close of the period because the cost of merchandise on hand at the beginning of the period must be added to the cost of merchandise purchased during the period to ascertain the total cost of all merchandise. The form of entry for transferring the merchandise inventory to the Purchases account is the same whether it is made at the beginning or the close of the period. The entry necessary to transfer the inventory to the Purchases account for W. A. Gordon, Model Set, is shown at the right. The date, November 1, at the top, indicates that this entry was made at the beginning of the next fiscal period. After this is posted, the Inventory account will be in balance, and the value of the inventory will appear on the debit side of the Purchases account under date of November 1; it is customary to write "Inventory" in the explanation column of the ledger.

Nov. 1, 192			
Purchases	1477	15	
Inventory			1477 15
To close the Inventory account at beginning of fiscal period			

Exercise No. 37, Closing the Ledger, Journal Entry Method.

Prepare a Balance Sheet and Statement of Profit and Loss, each in report form, from the Trial Balance of C. U. Steele, resulting from recording the trans-

actions in Exercises Nos. 17, 20 and 23 (merchandise inventory, \$6,127.50). Close the ledger by the journal entry method and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger sheets at the conclusion of Exercise No. 23.

Exercise No. 38, Closing the Ledger, Direct Method.

Prepare a Balance Sheet in account form and a Statement of Profit and Loss in report form from the Trial Balance of Donald D. Sells, resulting from recording the transactions in Exercise No. 24 (merchandise inventory, \$762.78). Close the ledger by the direct method, and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger at the conclusion of Exercise No. 24.

Exercise No. 39, Closing the Ledger, Journal Entry Method.

Prepare a Balance Sheet in account form and a Statement of Profit and Loss in report form from the Trial Balance of H. A. Popp, resulting from recording the transactions in Exercise No. 25 (merchandise inventory, \$396.54). Close the ledger by the journal entry method, and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger at the conclusion of Exercise No. 25.

Exercise No. 40, Closing the Ledger, Combined Journal Entry.

Prepare a Balance Sheet and Statement of Profit and Loss, each in report form, from the Trial Balance of J. N. Fulton, resulting from recording the transactions in Exercise No. 26. Close the ledger by a combined journal entry as explained at the bottom of page 93, and take a post-closing Trial Balance.

The student was instructed to retain the Trial Balance and ledger at the conclusion of Exercise No. 26.

Summary of Chapters VI, VII and VIII. The Model Set in Chapter VI illustrates the method of recording transactions, posting and taking a Trial Balance. Illustrations are provided so that the student may see the connection between the transactions and the Trial Balance at the end of the month.

The Balance Sheet is a report showing the assets, liabilities and proprietorship. The Statement of Profit and Loss is a report showing a list of the income, costs and net profit. The proprietorship as shown by the Balance Sheet less the net profit or plus the net loss as shown by the Statement of Profit and Loss equals the proprietorship at the beginning of the fiscal period.

"Closing the ledger" is a term used to describe the method of transferring the profit or loss to the owner's Capital account. Certain entries are required to make this transfer. These entries may be made direct in the ledger in the same manner as transactions may be recorded direct in the ledger, or they may be recorded in the general journal and posted to the ledger. The accounts to be closed are those used in connection with the Statement of Profit and Loss; they include cost and income accounts. The Profit and Loss account is used in the process of closing; when all accounts have been closed, the balance of the Profit and Loss account is transferred to the owner's Capital account. The post-closing Trial Balance proves that the equality of debits and credits has been maintained throughout the closing process.

QUESTIONS

1. Explain the meaning of the term "closing the ledger".
2. Is it necessary to close the ledger? Why?
3. When is the ledger closed?
4. Name the two methods of closing the ledger.

*

5. What is the purpose of the Profit and Loss account?
6. Why is the account not named "Loss and Gain" since losses appear on the debit side and gains on the credit side?
7. What is the purpose of the post-closing Trial Balance?
8. Why are accounts ruled when the two sides are equal? How?
9. Why is it necessary to open an account with Inventory at the close of the fiscal period?
10. Name the five entries usually required in connection with closing the ledger.
11. If the business had made a profit other than that shown by the Purchases, Sales and Inventory accounts, would a separate entry be required to close this profit into the Profit and Loss account? If the profit is credited to a Profit on Sales of Real Estate account, name the accounts debited and credited in the closing entry.
12. A business owned a horse which it used in connection with the delivery of its merchandise; this horse died and the loss was debited to a "Loss on Dead Horse" account. Would a special entry be required to close the balance of this account into the Profit and Loss account? Name the accounts debited and credited in this closing entry.
13. After the ledger is closed, what accounts remain open?
14. What relation does the credit to the owner's Capital account after it is closed have to the assets and liabilities shown by the accounts that remain open after the ledger is closed?
15. Describe the process of closing the ledger by the direct method.
16. Describe the process of closing the ledger by the journal entry method.
17. Which method of closing the ledger is considered the better? Why?
18. Are the debits and credits equal in each closing entry? Why is this necessary?
19. If an account is closed with an incorrect amount, what effect will this have on the Trial Balance of the first month of the next fiscal period?
20. Mention an error in the closing of the ledger which would affect future Trial Balances.
21. Why is the Cash account balanced at the close of the fiscal period?
22. Describe the entry necessary to close the balance of the Inventory account into the Purchases account. When should this entry be made?
23. Is it necessary to balance each customer's account and each creditor's account in the ledger at the close of the fiscal period? Give reasons for your answer.
24. Is it necessary to balance the Capital account after the net profit or net loss for the period has been credited or debited to it?
25. Why is red ink used for closing the Capital account even though the other accounts may be closed by journal entries?

Chapter IX

BUSINESS FORMS AND VOUCHERS

The Purpose of this and the Two Succeeding Chapters is to explain and illustrate those business forms used most frequently in connection with the performance of business transactions. A printed statement of the business transaction which has been completed is sufficient for determining the debits and credits in connection with the transaction, but a knowledge of business forms is necessary because they represent transactions to the bookkeeper.

§ 63. **A Business Form or Voucher** is a written statement concerning a business transaction to be performed or one that has been completed. The two terms are used with the same meaning, but the term "voucher" usually refers to a business form which is an evidence of a cash payment. Business forms prepared for a specific purpose are usually printed with blank space for the information desired in connection with a transaction. These forms are referred to by name, as purchase order, invoice, purchases invoice, sales invoice, bill, sales ticket, receipt, deposit ticket, check, note, sight draft, time draft, trade acceptance, etc. The various business forms will be explained and illustrated as they are needed in the recording of transactions in the practice sets. In this chapter, those which relate to the purchases and sales of merchandise are explained and illustrated.

§ 64. **Use of Business Forms.** A business form serves two purposes: (1) it provides written information in regard to a business transaction, thus avoiding the misunderstanding which might result from a verbal contract; (2) it provides information for the basis of the entry made by the bookkeeper when he records the transaction. From the standpoint of the bookkeeper, business forms are very important because they not only provide the information which he needs in recording transactions, but also support his records when these are verified by the auditor.

In the preceding chapters, the transactions have been recorded from a printed statement of the facts; in practice, the bookkeeper would make his record from business forms because no printed record of the transactions would be available. The usual process is (a) transactions performed as evidenced by business forms; (b) a record of these transactions in books of original entry; (c) the accounts in the ledger resulting from posting; (d) the Trial Balance at the end of the month to prove the equality of the debits and credits; (e) a report of the assets and liabilities, and profits and losses to the owner at the close of the fiscal period.

§ 65. **A Purchase Order**, or "order" as it is sometimes termed, is the written authority from the purchaser, authorizing the seller to make shipment of the merchandise described therein. The printed form provided for a purchase order should be made in duplicate, the original and duplicate printed on different-colored paper, and each original and duplicate numbered the same, the numbers being arranged consecutively. When the order is made, the same facts are shown on the duplicate as on the original and the duplicate is filed for reference. When this plan is followed, the purchaser has available all the information given in each order and can check the list of the merchandise received with this to determine whether the order has been filled as directed.

Merchandise may be ordered by letter, by telegraph, or by telephone; when the order is placed by letter, a description of the merchandise desired is given on the order blank enclosed with the letter, and not in the letter; when the merchandise is ordered by telegraph or by telephone, an order, accompanied by the copy of the telegram or containing the date of the telephone message is mailed to the seller confirming the telegram or the telephone call. Unfilled orders should be filed numerically, and, when they have been filled, they should be placed in another file in the same order. Illustration No. 48 shows one form of purchase order; others will be discussed and illustrated later.

SOUTH-WESTERN PUBLISHING CO. Publishers of Commercial Text Books 309 WEST THIRD ST., CINCINNATI, OHIO Yawman & Erbe Manufacturing Co. Rochester, N. Y.		<u>MARK ORDER NO.</u> <u>ON ALL INVOICES</u> Order No. 3983 Cincinnati April 21 19 21 Terms 30 days net	
Ship via <u>Freight - prepaid</u>			
MARK ORDER NO. ON OUTSIDE OF ALL PACKAGES AND CASES			
QUANTITY	DESCRIPTION	PRICE	PER
2	#106 Bases)	10.00	ea.
4	#59 Sections)	30.00	"
2	#60 ") 110 finish	31.00	"
2	#22 ")	33.50	"
ORIGINAL			
South-Western Publishing Co.		By <u>L. M. W.</u>	
<u>Deliver no goods without a written Order on this form.</u>			

Illustration No. 48, Purchase Order.

EXPLANATION. This illustration shows a purchase order issued by the South-Western Publishing Co., Cincinnati, O., for filing devices manufactured by the Yawman & Erbe Mfg. Co., Rochester, N. Y. The order is issued in triplicate; the original is mailed to the Yawman & Erbe Mfg. Co., one copy is filed in the office, and the other is sent to the receiving department. The instructions in the upper right hand corner are for information in checking the invoice; the instructions in regard to marking the cases are for the receiving department.

§ 66. An **Invoice** is a written list of merchandise purchased or sold. The purchaser usually refers to the invoice he receives as a "purchase invoice", and the seller to one which he issues as a "sales invoice". If the printed form on which the invoice is prepared is made in duplicate, the seller can, by the use of carbon paper, retain a copy of the list of items sold each customer; the method of doing this will be explained later. An invoice is authorized by a purchase order and should contain all the information given in the order; this includes the date and number of the purchase order, method of making shipment, detailed description of the merchandise shipped, prices and extensions of each item, and the total. In addition to this information, the invoice should show the date the merchandise was shipped, which should be the date of the invoice; the terms which the seller allows; the name and address of the seller; and any other information which the seller may wish to include. If all the merchandise mentioned in the purchase order is not shipped, an explanation of this omission should be given on the invoice, because the purchaser, in checking the information on the invoice with his order, will want to know the reason it has not been filled as specified. Illustrations Nos. 49 and 50 show two forms of invoices; other forms will be explained and illustrated later.

Invoice —

YAWMAN AND ERBE MFG. CO.Wood and Steel
Filing DevicesOffice Systems
and Equipment

MAIN OFFICE AND FACTORIES, ROCHESTER, N. Y.

Sold To

South Western Publishing Co.
309 West Third St.
Cincinnati, Ohio.Date 5/24/21.
Your Order No. 3983
Rochester No. 234873
Branch No.
Shipped Via N Y C
Territory 66

TERMS:—Thirty Days Net—Payable in New York Exchange—Pay No Money to Representatives.

Quantity	Description	Price	Amount	Total
2✓	106 Bases	10 00✓ ea	20 00✓	
4✓	59 Sections	30 00✓ "	120 00✓	
2✓	60 "	31 00✓ "	62 00✓	
2✓	22 "	33 50✓ "	67 00✓	
	110 finish			\$269 00✓

Illustration No. 49, Purchase Invoice.

EXPLANATION. This invoice is in acknowledgment of the purchase order, Illustration No. 48. The order has been filled completely. Space is provided on the invoice for information relative to the date, the buyer's order number, the seller's number, the branch number, method of shipment, and territory. The "66" after "Territory" indicates that there are a number of territories and that the merchandise mentioned in this invoice was shipped into territory No. 66. The check marks indicate that the merchandise has been received as ordered, that the prices agree with the order, and that the extensions and the total have been verified.

W. H. GOODWIN

DEALER IN

Fancy Groceries, Provisions and Country Produce.

*Cincinnati Jan 4 19**Sold to A. R. Jennings**Terms account**105 Main St. City*

QUANTITY	ITEMS	PRICE	DOLLARS	CTS.	TOTAL
3	lbs. George Washington Coffee	.75	2	25	
1	dbl. White Lily Flour	10.00	10	00	
1	bag Mich. Potatoes (100 lbs)	2.50	2	50	
1	doz Oranges	.50		50	15 25

Illustration No. 50, Sales Invoice.

EXPLANATION. This sales invoice is prepared from the sales ticket in Illustration No. 51 on page 102. The form is similar to that of the purchase invoice in the illustration above.

§ 67. A **Sales Ticket** is a form of sales invoice used by some retail merchants. Sales tickets are usually printed in duplicate and bound in a book. Each clerk is provided with a book, and, when he makes a sale, either on account or for cash, he makes a list of the merchandise sold on the sales ticket. By the use of carbon paper, the two copies can be made at one time; one copy is sent to the office for the information of the bookkeeper and the other to the wrapping department to be wrapped with the merchandise sold; additional copies may be made at the same time if they are needed in connection with the accounting records. There are many methods of arranging sales tickets, but no attempt will be made here to discuss all of these. The method described will enable the student to understand the meaning and purpose of the sales ticket and its use in connection with the sales invoice. Illustration No. 51 shows one form of sales ticket. The student is advised to inquire from local merchants for other forms and their use in the sales, packing, and accounting departments.

EXPLANATION. The information on this sales ticket shows the date, the name of the one to whom the sale was made, his address, the number of the sale, the clerk, the items sold, amount of each, and total amount. The purchaser receives a copy of this with the merchandise so that he may know that the proper merchandise has been delivered.

SALES TICKET			
W. H. GOODWIN			
Date <u>Jan 4</u> 19 <u>21</u>			
Sold to <u>A. R. Jennings</u>			
Address <u>105 Main St. City</u>			
Sale No. <u>1</u>	Sold by <u>L. E. Cole</u>		
No.	ARTICLE	PRICE	AMOUNT
<u>3</u>	<u>bus. St. W. Coffee</u>	<u>75</u>	<u>2 25</u>
<u>1</u>	<u>bbl. W. L. Flour</u>	<u>10.00</u>	<u>10 00</u>
<u>1</u>	<u>bag. Mich. Potatoes</u>	<u>2.50</u>	<u>2 50</u>
<u>1</u>	<u>doz. Oranges</u>	<u>50</u>	<u>50</u>
			<u>15 25</u>

Illustration No. 51, Sales Ticket.

§ 68. A **Bill** is a business form given as evidence of service rendered. The terms "bill" and "invoice" are sometimes used interchangeably, but the general understanding is that an invoice is a list of merchandise or material purchased

LAST DAY OF PAYMENT OCTOBER 10th		CASHIER'S STUB	
CINCINNATI, O. OCTOBER 1, 1921		PLEASE RETURN THIS STUB WITH YOUR MAIL REMITTANCE OR PLACE YOUR TELEPHONE NUMBER ON CHECK	
THE CINCINNATI & SUBURBAN BELL TELEPHONE CO.			
Telephone Building, 225 E. Fourth Street, Cincinnati, O.			
See back of bill for rules and regulations regarding the billing and collection of accounts.			
JAS. W. BAKER	A3874	JAS. W. BAKER	A3874
DELAWARE & KASOTA,		DELAWARE & KASOTA,	
AVON., CINTI., O.		AVON., CINTI., O.	
EXCHANGE SERVICE AS PER CONTRACT FOR OCTOBER, 1921	4.50	OCTOBER, 1921	4.50
ADDITIONAL LOCAL MESSAGES TO SEPTEMBER 30, 1921			
TOLL SERVICE	2 40		
BALANCE DUE ON BILL PREVIOUSLY RENDERED	6 90		
Office closed on Legal Holidays and at 1 P. M. on Saturdays during June, July, Aug. and Sept.		TOTAL 6 90	

Illustration No. 52, A Bill.

EXPLANATION. This bill is rendered for telephone service as stated therein. In addition to regular service, there is a charge for toll or long-distance calls; this charge is usually supported by a separate bill giving details. The notice in the upper left-hand corner is for the convenience of the bookkeeper of the telephone company so that, when a remittance is received, he may know whether the subscriber desires the bill to be receipted and returned.

or sold, and a bill is a statement of service rendered. Bills are rendered by attorneys, physicians, gas, electric, and telephone companies, and other individuals or concerns which render service for which payment is to be made after the service is rendered. Illustration No. 52 shows one form of bill. The arrangement is usually the same as that of an invoice, but this depends largely on the purpose for which the bill is rendered.

§ 69. A **Receipt** is a written acknowledgment from the receiver to the giver, of money or other property received in payment for some form of indebtedness. Receipts may be the result of transactions in connection with the purchase or sale of merchandise or transactions in which service has been rendered. A receipt may be written on a receipt form as in Illustration No. 53; it may be a

No. _____	No. _____ January 9, 19__
Date Jan 9, 19__	Received of A R Jennings
To A R Jennings	Ten _____ % Dollars
For Account	On account
Amount \$ 10.00	\$ 10.00 W H Goodwin
	By Student

Illustration No. 53, Receipt Book with Stub.

EXPLANATION. The illustration shows the receipt book and stub. The information on the stub is arranged in the same order as it is on the receipt for the convenience of the bookkeeper. The purpose of a receipt should always be stated on the stub for the information of the bookkeeper when he records the transaction (§ 27, ¶ 5), and on the receipt for the information of the holder.

FORM 243-102B-10-18		
THE PHILIP CAREY COMPANY		
LOCKLAND, CINCINNATI, OHIO. DEC. 31, 192		
ORDER NO. D-058676	REQ. NO.	SHIPPED FROM
CAR NO.	FREIGHT	INVOICE NO.
F. O. B. DEL'D	VIA OUR TRUCK	SALESMAN
TO H. C. HAZEN CONTRACTING CO. 2070 READING ROAD, CINCINNATI, O.		 WORKS: LOCKLAND, OHIO PLYMOUTH MEETING, PA. ALL REMITTANCES MUST BE MADE PAYABLE TO ORDER OF THE COMPANY
Terms, Cash. Subject to sight draft in 30 days without further notice. Interest charged on past DUE ACCOUNTS.		
3-PLY GRAY WALLBOARD IN BULD. 105 SHEETS 48" X 6' 2520 SQ. FT. SHIPPED TO H. C. HAZEN CONTRACTING CO., 2070 READING ROAD, CINCINNATI, O.		35.00 M ✓ 88.20 ✓

Illustration No. 54, Receipted Invoice.

EXPLANATION. The blue stamp indicates payment. When an invoice is receipted this is sufficient evidence of payment, hence a receipt in receipt form is not necessary.

receipted invoice or bill as in Illustrations Nos. 54 and 55; or it may be prepared in any form which suits the convenience of the giver. Each business concern which issues receipts should have these bound in a book with stubs as in Illustration No. 53, as this provides a permanent record of all receipts issued. When issuing a receipt similar to the illustration, the bookkeeper should always fill out the stub first because this is his record of the receipt.

SEPT. 10, 1921		SEPT. 10, 1921	
<b style="color: red; font-size: 1.2em;">NOTICE No Discount Allowed on this Bill after <b style="color: red;">SEPT. 15th	3 13	J. W. BAKER 3261 DELAWARE AVE.	JW B 172-21 3-13 2.10
TO THE UNION GAS AND ELECTRIC CO. DR. S. W. COR. FOURTH AND PLUM STS., CINCINNATI, O.		2.40	
For Natural Gas Consumed:			
SEP 1 8870 00	30 210		
AUG 1 8810 00			
Amount Consumed 60 00		Cu. Ft.	
At the rate of 40c per M cubic feet, subject to discount of 5c per M, if paid on or before Last Day of Discount. Minimum Bill 35c net per month.			
Please Bring this Bill to be Receipted. POSTAGE must be enclosed for Return of Receipt. OFFICE HOURS: 8 A.M. to 5 P.M.. SATURDAY to 12 M Closed on Legal Holidays.			

Illustration No. 55, Receipted Bill.

EXPLANATION. The illustration shows a receipted bill from the gas company. The cashier of the gas company would remove the right-hand end at the line and retain this for his record. Both ends are illustrated to show that the stub may be attached to the receipt and not bound in a book.

§ 70. Filing Business Forms and Vouchers. All business forms and vouchers should be properly filed because they are evidence of transactions either completed or to be completed, and, unless properly filed, might not be available when needed. The bookkeeper should pay particular attention to the filing of business forms and vouchers which support his records so that he may have satisfactory evidence of their correctness. No attempt will be made here to discuss the method of filing business forms and vouchers, the purpose of the discussion being to impress on the student of bookkeeping the importance of filing those business forms and vouchers which support the bookkeeping records.

Exercise No. 41, Sales Tickets.

Prepare sales tickets for the sales made July 5, 8, 13, 16, 19, 22, and 26 in Exercise No. 14 on page 40. You may use the sales tickets of a local grocer, blank sales tickets, or forms ruled similar to Illustration No. 51.

Exercise No. 42, Sales Invoices.

Prepare sales invoices for the ten sales in Exercise No. 19, page 49. You may use invoices of a local grocer, blank invoices for sale by stationery stores, or forms ruled similar to Illustration No. 50.

Exercise No. 43, Purchase Order, Sales Invoice, and Receipt.

As purchasing agent for the Johnson Paint Co., Chicago, place an order, under date of May 16, with the Globe-Wernicke Co., Cincinnati, manufacturers of office furniture, for the following: 3 No. 503 Filing Cases at \$12.00; 6 No. 67 Sections at \$32.00; 3 No. 69 Sections at \$35.00; 12 No. 37 Sections at \$36.25. Terms, net 30 days; shipment to be made by Pennsylvania freight.

As bill clerk for the Globe-Wernicke Co., render an invoice for this material under date of May 19.

As receiving cashier for the Globe-Wernicke Co., prepare a receipt for the remittance received from the Johnson Paint Co. in payment for this invoice.

If you can obtain an order blank and an invoice from some local business concerns, these may be used instead of the names given. If you do not have blank forms, rule writing paper similar to Illustrations Nos. 48, 49, and 53.

QUESTIONS

1. What business form supports the record of each transaction in the purchases journal?
2. What business form supports the record of each transaction in the sales journal?
3. Explain the check marks in Illustration No. 49.
4. Explain the meaning of the words "30 days net" after "Terms" in Illustration No. 48.
5. Explain the meaning of the terms "Date", "Your Order No.", "Rochester No.", "Branch No.", "Shipped via", and "Territory", and the information given on a line with these in Illustration No. 49.
6. What is the purpose of indicating the territory number?
7. Explain "Mark order number on outside of all packages and cases" in Illustration No. 48.
8. Explain "Deliver no goods without a written order on this form" in Illustration No. 48.
9. When is the due date of the invoice in Illustration No. 49?
10. Why should a purchase order be made in duplicate?
11. Why should duplicate purchase orders be filed?
12. Can you suggest a method of filing duplicate orders so that the information will be readily available when needed?
13. Why should a sales invoice be made in duplicate?
14. Could the duplicate sales invoices be used as a sales journal?
15. Suggest a means of filing the duplicate sales invoices if they are to be used as a sales journal.
16. Distinguish between a purchases invoice and a sales invoice.
17. Robert Crouch made a number of purchases on account from a local grocer during the month of June. July 1 he received a written statement from the merchant, showing that he owed the merchant \$28.60. How may Mr. Crouch know that this amount is correct without asking the merchant for additional information?
18. If a merchant sends a sales ticket with each sale on account, is it necessary for him to render a sales invoice?
19. If you purchase a pair of shoes from a local merchant and wish to return them, what evidence will he require in addition to the shoes? Why?

20. Could the sales tickets be used by the merchant as the account with a customer?
21. Distinguish between a bill and an invoice.
22. If a merchant has a purchase invoice receipted when he pays it, is a receipt in receipt form necessary?
23. If a receipt for \$21.50 is issued to a customer for this amount of cash received from him on account, and the entry on the stub shows only \$21.00, how will the bookkeeper detect the error?
24. If a receipt is issued and the bookkeeper fails to record it on the stub, state two ways by which he may ascertain the amount of the receipt.
25. If the bookkeeper issues receipts for all money received, what business forms support his record of the transactions on the receipts side of the cash book?

Chapter X

BUSINESS FORMS AND VOUCHERS—Continued

§ 71. A **Bank** is a business organized for the purpose of making a profit through dealing in money and securities. The capital investment, together with the money deposited by customers, is loaned to those engaged in other business enterprises. The principal income is the interest earned by these loans. Banks are of great value to the community in which they are located because they provide a place for the safe-keeping of money and securities, and make possible the "deposit and check" method of making payments, thus eliminating, to a great extent, the use of money as a medium of exchange.

§ 72. **Opening an Account with the Bank.** An account is opened with a bank by depositing currency or cash items; the receiving teller will not accept the first deposit from a depositor until it has been approved by the cashier or president of the bank. It is necessary for the officials of the bank to become acquainted with each depositor so as to avoid the possibility of the use of the bank account for a fraudulent purpose. The receiving teller gives the depositor a receipt for the amount of his deposit; this receipt is in the form of an entry in the pass book (§ 75), showing the date of the deposit and the amount. The depositor is provided with a book of blank checks (§ 76) for his use in withdrawing the money deposited; these blank checks are necessary because no money can be withdrawn from the bank except by check. The depositor is required to sign his name on a signature card that the bank may verify his signature on the checks which he writes.

EXPLANATION. The illustration indicates that T. L. Staples has opened an account with the Merchants National Bank and that his checks will be signed as indicated by his signature on the card. His address, name of the person by whom identified, telephone number, and date of opening the account are given for future reference. The card is punched to fit a filing device in which it will be filed alphabetically.

Staples, T. L.	
THE MERCHANTS NATIONAL BANK.	
Signature	<i>T. L. Staples</i>
Signature	
Address / as identified by	<i>Lakeside Ave. J. W. Brown</i>
Telephone	<i>624R</i>
Date	<i>Jan. 16, 19</i>

Illustration No. 56, Signature Card.

§ 73. A **Deposit Ticket** is a printed form supplied the depositors by the bank, on which to list the currency or cash items which he wishes to deposit. Space is provided for the date, name and address of the depositor, the various kinds of currency and cash items deposited, and the total amount of the deposit. Illustration No. 57 shows two deposit tickets, one on which the depositor has listed currency only, and the other on which he has listed currency and cash items.

§ 74. **Method of Making a Deposit.** The depositor should consult with the receiving teller in regard to the preparation of his deposit ticket that he may know the teller's desires in this matter and thus prepare his deposit to suit the convenience of the clerks in the bank. Currency and cash items should be listed

ALWAYS BRING YOUR PASS BOOK.

ALWAYS BRING YOUR PASS BOOK.

Merchants National Bank

Deposited by

*W. H. Goodwin*By *Student**Feb 1* 19

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	1500	
Silver		
Checks		
"		
"		
"		
"		
"		
"		
<i>Total</i>	1500	

Merchants National Bank

Deposited by

*W. H. Goodwin*By *Student**Feb 13* 19

LIST EACH CHECK SINGLY.	Doll's.	Cts.
Currency	12500	
Silver	1350	
Checks <i>City National</i>	13265	
" <i>Chicago</i>	11860	
" <i>Denver</i>	8825	
" <i>Merchants Natl</i>	10000	
" <i>Third National</i>	5516	
" <i>New York</i>	42165	
" <i>Merchants Bank</i>	1985	
"		
<i>Total</i>	107461	

Illustration No. 57, Deposit Tickets.

EXPLANATION. The deposit ticket at the left shows a deposit of currency only, and that at the right, currency, silver, and checks. "City National" at the left of the first check listed indicates that the check is payable by the City National Bank and that this is located in the same city as the Merchants National Bank; this statement also applies to the fourth, fifth, and seventh checks listed. "Chicago" written at the left of the second check listed indicates that this check is payable by a bank in Chicago; this same statement applies to the third and sixth checks. Some banks do not require this information while others require information in another form. It is suggested in § 74 that the depositor learn the bank's wishes in regard to the listing of checks.

as instructed by the teller. The receiving teller has many deposits to enter each day and will appreciate the cooperation of the depositor in complying with his suggestions. The depositor should see that the date, his name, and the total of the deposit appear on the deposit ticket, also that the currency and cash items are arranged in the order listed. The depositor should retain a copy of the items deposited, either by making a duplicate deposit ticket or by listing them on the back of the stub from which the last check was removed.

§ 75. **The Pass Book** is a small bound book ruled with columns for the date, nature of the entry (deposit, discount, or collection), and the amount. As explained in § 74, the receiving teller enters the date and amount of each deposit in this book, this being the depositor's receipt for the deposit. The depositor should always present the pass book with the deposit so that the teller can give him a receipt for it; in case he should forget to bring the pass book, the teller will give him a receipt on a duplicate deposit ticket, which should be retained until the next deposit is made and the amount entered in the pass book at that time. Illustration No. 59 (left side) shows deposits entered in a pass book; further reference is given to this illustration in § 79.

§ 76. A Check is a written order by a depositor on his bank, designating to whom he wishes the bank to pay a part or all the money he has on deposit. It is customary for the bank to provide its depositors with blank checks for the same reason that blank deposit tickets are provided. Checks supplied depositors by a bank are usually bound in book form, each check having attached to it a stub for the depositor's record. Illustration No. 58 shows a check book with two checks to a page and stubs attached, with perforated lines for detaching.

A check is not money, but, since it is used in the place of money, it is accepted as such in business. Custom has established the term "cash" as one which includes money and checks (§ 15). The use of checks for paying obligations is more satisfactory than the use of money because it provides a receipt and avoids errors in making change, and losses through theft.

Deposits, <u>24</u> 1500 No. <u>1</u> Date <u>Feb. 3</u> 19__ For <u>Lake View Creamery</u> For <u>acct in full</u> Amount, \$ <u>28.00</u> Balance <u>1472</u>		W. H. GOODWIN RETAIL GROCERIES	No. <u>1</u> Feb. 3, 19__ MERCHANTS NATIONAL BANK Pay to the order of <u>Lake View Creamery</u> \$ <u>28.00</u> <u>Twenty-eight and 00/100</u> Dollars <u>W. H. Goodwin</u> By <u>your name</u>	
Deposits, _____ No. <u>2</u> Date <u>Feb. 5</u> 19__ For <u>Donaldson Bros</u> For <u>on acct</u> Amount, \$ <u>125.00</u> Bal. Carried Forward <u>1347</u>			W. H. GOODWIN RETAIL GROCERIES	No. <u>2</u> Feb. 5, 19__ MERCHANTS NATIONAL BANK Pay to the order of <u>Donaldson Bros</u> \$ <u>125.00</u> <u>One Hundred Twenty-five and 00/100</u> Dollars <u>W. H. Goodwin</u> By <u>your name</u>

Illustration No. 58, Check Book.

EXPLANATION. The information on the stub is arranged in the same order as that on the check for the convenience of the depositor. The information after "For" is needed by the book-keeper in recording the transaction (§ 28, ¶ 5). The ruled column at the right of the stub shows the depositor's account with the bank as explained in § 78. The name of the depositor at the left indicates that he has had the checks prepared for his individual use. The dotted lines show perforations for removing each check.

§ 77. Instructions for Writing Checks. The check book provided by the bank contains printed forms for use in writing checks, each of which is attached to a stub containing space for all the information written in the check. The stub is for the depositor's record of the check, hence the information to be written in the check should be written on the stub first. The information written on the stub includes the number, the date of issue, the person or business concern to whom the check is written, the reason for writing, the amount, and, if desired, the name of the account to be debited in the cash book. Each check and stub is numbered the same and consecutively, beginning with "1"; these should be numbered at the time the check book is received from the bank.

The information on the check is written in the following order: (1) the date, (2) the name of the person or business concern to whom the check is to be paid, (3) the amount in writing and in figures, and (4) the signature of the depositor, which should be the same as that on the signature card. If desired, the reason for writing may be stated on the check as well as on the stub. The information on the stub and on the check should be arranged in the same order so that the

check can be written from the information given on the stub. Illustration No. 58 shows a check book with two checks to the page and the two stubs and checks properly written, but with neither of the checks removed; the dotted lines show the perforations which make the checks more easily removed. The information in the ruled column at the right of the stub in Illustration No. 58 is for the depositor's convenience in keeping a record of his transactions with the bank, as explained in § 78.

§ 78. Depositor's Record of His Transactions with the Bank. Each depositor should keep a record of the transactions which he performs with the bank. This record may be kept in a special blank, on the front or back of the check stub, or in an account in the ledger. Since the depositor should know that the bank balance is sufficient to pay the check he is about to write, the front of the stub is the best place to keep the account with the bank. A column is usually ruled for this in the check book provided by the bank. Reference to Illustration No. 58 will show the method of keeping the bank account on the front of the check stub; the other methods mentioned will be explained and illustrated later.

§ 79. The Bank's Record of Transactions with Depositors. The depositor is credited with each deposit and debited with each check paid by the bank. The entry in his account is made from the deposit tickets and the checks which the bank has paid. On the first of each month, the bank renders the depositor a statement showing the date and amount of each deposit, the date paid and amount of each check, the daily balance, and the balance due the depositor at the end of the month. The checks listed on this statement are returned to the depositor with the statement; the deposit tickets are kept on file in the bank. Formerly it was the custom of banks to render this statement by listing the checks in the pass book and ruling it at the end of the month as in Illustration No. 59. With the use of special machines, it is more efficient to render a statement separate from the pass book, as in Illustration No. 60. When the separate statement is rendered, both sides of the pass book are usually used for listing deposits, though some banks enter the total of the paid checks in the pass book and show the balance at the beginning of the month below ruled lines.

In Account with					
Dr. MERCHANTS NATIONAL BANK					
W. H. Goodwin					
Feb. 1	Deposit	1500	Feb. 3	Check	28
13	"	435 55	5	"	125
28	"	245 60	8	"	197.10
			13	"	150
			17	"	103.60
			23	"	175 70
			28	Balance	2181 15
		2181 15			
Mar. 1	Balance	1402 45			

Illustration No. 59, Bank Statement in the Pass Book.

EXPLANATION. The illustration shows the opposite pages of a pass book. The information on the left page shows three deposits entered by the teller. The entries on the right show the checks listed by the bookkeeper when the depositor's pass book was balanced at the end of the month. The ruling is similar to the receipts and payments sides of a cash book. As explained in § 79, deposits are usually entered on both sides of the pass book and the canceled checks listed on a separate statement as in Illustration No. 60.

Statement of
W. H. Goodwin
In account with
Merchants National Bank

6 Vouchers Returned

PLEASE EXAMINE AT ONCE { IF NO ERRORS ARE REPORTED WITHIN TEN DAYS THE ACCOUNT
WILL BE CONSIDERED CORRECT AND VOUCHERS GENUINE

Feb. 1	Deposit	1500.00	
3	Check		28.00
5	"		125.00
8	"		197.10
13	Deposit	435.55	
	Check		150.00
17	"		103.60
23	"		175.00
28	Deposit	245.60	
	Balance		1402.45

Illustration No. 60, Bank Statement Separate from Pass Book.

EXPLANATION. This statement was prepared on a special machine manufactured for making bank statements. The information in this statement is obtained from the account which the bank keeps with the depositor; the statement is rendered monthly. The canceled checks accompany the statement when it is delivered to the depositor.

§ 80. Reconciliation of Depositor's Account with the Bank Statement. The balance shown on the bank statement may or may not be the same as that shown by the depositor's record. If all checks issued by the depositor have been paid by the bank, if there have been no alterations and no errors in addition or subtraction in the depositor's record, the two balances will be the same; if all the checks issued have not been paid by the bank, or there have been errors or alterations, the two balances will not agree. The depositor should audit the bank statement with this record and reconcile the two balances when they do not agree; this reconciliation should be made as soon as the statement is received because alterations of checks should be reported to the bank immediately. The calculations in this reconciliation should be shown on the back of the stub from which the last check issued during the month for which the statement was rendered, was removed. As a rule, the only discrepancy between the two balances will be the amount of the check or checks issued by the depositor but not paid by the bank. The reconciliation should be made in the following manner:

1. Check each deposit with the entry for the same on the check stub. If there is a discrepancy, compare the check stub entry with the entry in the pass book, and this entry with that on the statement. If there is a discrepancy in a deposit ticket which can not be accounted for, it should be audited with the copy on file in the bank.

2. Compare each canceled check received from the bank with the stub from which it was removed; any discrepancy between the amount on the stub and that on the statement should be reported to the bank immediately. Place a check mark at the left of the number on the stub as each check is compared with its corresponding stub.

3. On the back of the stub from which the last check written during the month was removed, list the number and amount of each stub which does not have a check mark at the right of the number; add these amounts to ascertain the total of the checks issued but not paid by the bank. Write the balance shown by the bank statement below the total unpaid checks, and subtract the amount of the unpaid checks from the bank balance; the result should be the same as the check stub balance.

SOUTHERN STATES PHOSPHATE & FERTILIZER CO.

TRADE MARK **SS** MARK

Atlanta, Ga. January 4 19 No. 91

Pay to the order of Robert McFarland \$ 261.75

Two hundred sixty one and 15/100 Dollars

To Bank of the Manhattan Co. } Southern States Phosphate & Fertilizer Co.
New York City. } A. H. Simpson
 Secy. & Treas.

Illustration No. 61, Personal Check.

EXPLANATION. This illustration shows a check prepared by the depositor. It includes the usual information and the name and trade mark of the business.

§ 81. A **Bank Draft** is a check drawn by one bank on funds deposited with another bank. Bank drafts are sometimes referred to as "exchange"; a draft payable by a bank in New York, as "New York Exchange"; one payable by a Chicago bank, as "Chicago Exchange"; etc. Bank drafts are used by banks in payment of checks received for collection, sold to depositors for remitting to the commercial centers, and sold to individuals for sending money through the mail. Illustration No. 62 shows a bank draft payable by the Chase National Bank of New York, hence might be referred to as "New York Exchange". The use of bank drafts is discussed again in a subsequent chapter.

FIRST NATIONAL BANK AT TURLOCK

80-322 No. **3459**

TURLOCK, CAL. March 2, 19

PAY TO THE ORDER OF Union Lithograph Co. \$ 365.20

THREE HUNDRED SIXTY FIVE DOLLARS TWENTY CENTS DOLLARS

TO **CHASE NATIONAL BANK,**
 1-74 **NEW YORK.** } Fred C. Webber
 CASHIER

Illustration No. 62, New York Bank Draft.

EXPLANATION. This illustration shows a check drawn by the First National Bank, Turlock, California, on funds which it has deposited with the Chase National Bank, New York.

§ 82. A **Cashier's Check** is a check drawn on a bank by its cashier. It is used in the payment of the operating expenses of the bank, in payment of the proceeds of collections or discounts made by the bank, and in payment of other obligations of the bank. Cashier's checks are sold to those who wish to use them as a means of sending cash through the mails in the same manner as bank drafts. Illustration No. 63 shows one form of cashier's check.

SECURITY STATE BANK 28-57
OF SPOKANE

SPOKANE, WASH., Feb. 7, 19 No. **2355**

PAY TO THE ORDER OF *John C. Epperson* \$1200⁰⁰

TWELVE HUNDRED DOLLARS

CASHIER'S CHECK *Chas. Benson* CASHIER

Illustration No. 63, Cashier's Check.

EXPLANATION. This illustration shows a check drawn by the cashier of the Security State Bank, Spokane, Wash., and payable by this bank.

§ 83. **Money Orders.** A money order is a check issued by one postmaster on funds deposited with another postmaster, by one agent of an express company on funds deposited with another agent of the same company, or by a bank on funds deposited with the Banker's Trust Company of New York. The first is referred to as a "postal money order"; the second, an "express money order"; and the third, an "American Bankers' Association (A. B. A.) check".

WHEN COUNTERSIGNED BY AGENT AT POINT OF ISSUE

EXPRESS MONEY ORDER 11-5684625

American Express Company

ACCEDES TO TRANSMIT AND

PAY TO THE ORDER OF *Harold A. Waltham*

THE SUM OF *Forty-eight and* ⁵⁰/₁₀₀ DOLLARS

ISSUED AT *Worcester* STATE OF *Mass* AGENT *C. H. Arnold*

DATE *January 9,* 19 *Carl C. Davidson*

50 NOT PAYABLE FOR MORE THAN FIFTY DOLLARS

Illustration No. 64, Express Money Order.

EXPLANATION. This illustration shows a money order issued by the American Express Company. Carl C. Davidson, who wished to send money to Harold A. Waltham, presented \$48.50 and the required fee to an agent of the American Express Company and received this money order for it. The purpose of money orders is to provide a means of transferring money from one locality to another with safety and convenience.

Postal money orders are for sale by each postmaster to those who wish to send money through the mail; they are also used by postmasters in remitting for "collect on delivery" parcel post shipments. Express money orders are for sale to those who wish to send money through the mail and, in this respect, are used for the same purpose as post-office money orders. Express money orders are arranged in convenient form for those who need expense money for a business or pleasure trip and do not wish to carry currency; they are also used by express company agents for remitting on "collect on delivery" express shipments. Bank drafts are used in the same way as express money orders—that is, for sending money through the mail—and for the convenience of those who wish to have available cash, but cash without carrying currency. A detailed discussion of "collect on delivery" shipments and a further discussion of the use of express money orders in connection with making remittances, are given in a subsequent chapter.

§ 84. **Endorsements.** An endorsement is any writing on the back of a check or other commercial paper, placed there for the purpose of transferring the title, receipting for part payment, or for the accommodation of some one or more of the parties on the paper. For convenience the endorsement should be written about one inch from the left-hand end of the paper, as in Illustration No. 65.

The endorsing of commercial paper should be well understood, as it transfers the title to the holder and holds the endorser liable in case default is made in payment. The law allows the same protection to commercial paper as it does to money, and unless it is properly endorsed, if lost, the finder may dispose of it to an innocent holder, in which case the loser can not recover it.

PAY TO THE ORDER OF
THIRD NATIONAL BANK
FOR DEPOSIT
THE NATIONAL LEAD CO
E. N. Nurre

C. 21 19 No. 1351

ONAL BANK

Lead Co. \$ 324 ⁷⁵/₁₀₀

ty-four and 75/100 DOLLARS

Lehman

Illustration No. 65, Position of Endorsement.

EXPLANATION. This check is payable to The National Lead Co. and endorsed by it for deposit with the Third National Bank. The endorsement is placed on the left-hand end of the check for convenience. The signature with a pen avoids misuse of the rubber stamp with which the check is endorsed.

§ 85. **Endorsement for Transfer.** There are a number of ways in which the holder of a commercial paper may write his name in order to transfer the title, but the four most frequently used are "in blank", "in full", "for deposit" and "for collection".

John Jones

¶ 1. "*In Blank*". An endorsement in blank is the name of the payee or holder only, written across the back. It has the same effect as making the paper payable to bearer, and it may be transferred by any subsequent holder, without further endorsement, but the endorsement of each holder is generally required, for identification. See illustration at the left.

Pay to the order of
C. W. King
John Jones

¶ 2. "*In Full*". This endorsement is effected by writing "Pay to the order of" above the name of the person or firm to whom it is transferred, and signing the name of the payee or holder. The person to whom it is transferred must endorse it before any succeeding holder can use it. All papers sent through the mail, or to be held for some time should be endorsed in full. See illustration at the left.

Pay to the order of
Union Bank
For deposit
W. H. Goodwin

¶ 3. "*For Deposit*". If desired, the depositor may qualify the endorsement on each check deposited with his bank by writing "For deposit" above his name as in the illustration at the left. Some clearing house associations prefer not to have qualified endorsements on checks which they clear and for this reason the depositor should consult the receiving teller or the proper official of the bank in regard to the deposits so that his endorsement may conform to the regulations of the clearing house through which the bank operates.

Pay to the order of
Union Bank
For collection
W. H. Goodwin

¶ 4. "*For Collection*". Commercial paper left at a bank or other collection agency for collection, should have "For Collection" written above the endorsement, as in the illustration at the left. Unless the endorsement is qualified in this manner, the owner might be held responsible as an endorser for the collection of the paper in case of the bankruptcy of the bank or collection agency. This is a condition that might not occur often, but, if it can be avoided by the qualified endorsement, then the holder should protect his interests through the endorsement.

The result of improper endorsements for collection may be illustrated by the following incident, which is true with the exception of the names. Robert Smith endorsed a note in blank and left it with his bank for collection. Mr. Smith died before the note was due. The bank failed and a receiver was appointed. Transactions performed by the bank had not been recorded correctly and in some cases there was doubt as to the ownership of the papers. The estate of Mr. Smith could submit no evidence to show that the note endorsed by him was left for collection, hence the receiver of the bank assumed that it was discounted, and held the estate responsible on account of Smith's endorsement.

Exercise No. 44, Personal Check.

As paying cashier for the Johnson Paint Co., Chicago, write the stub and check required to pay for the merchandise purchased from the Globe-Wernicke Co., Cincinnati, in Exercise No. 43. Use the first check and stub in Illustration No. 58 as a model.

Exercise No. 45, Reconciliation of Bank Account.

J. E. Gill performed the following transactions with the Merchants National Bank during the month of April:

2. Deposit	\$2,900.00	13. Check No. 13	\$457.74
2. Check No. 1	208.80	14. " " 14	48.10
2. " " 2	20.00	14. " " 15	273.42
3. " " 3	450.00	14. Deposit	341.38
4. " " 4	101.00	16. Check No. 16	150.00
5. " " 5	150.00	18. " " 17	256.01
6. " " 6	75.00	21. " " 18	94.75
7. " " 7	165.50	21. Deposit	791.00
7. " " 8	40.00	24. Check No. 19	141.32
7. " " 9	38.00	25. " " 20	103.88
7. Deposit	248.65	27. " " 21	279.77
10. Check No. 10	445.23	28. " " 22	38.00
11. " " 11	60.00	30. " " 23	567.43
11. " " 12	49.50	30. Deposit	815.24

1. On a slip of paper, write "Bank Account on Check Stub", and below this write the date and amount of each deposit, the date, number, and amount of each check, showing the balance in the bank after each deposit has been added and each check subtracted.

2. On a slip of paper, write "Reconciliation of Bank Account", and below this show the reconciliation of Mr. Gill's bank account with the statement received from the bank May 1, which shows a balance of \$1,667.57 and is accompanied by all canceled checks except Nos. 9, 19, 22, and 23.

Exercise No. 46, Reconciliation of Bank Account.

Show the bank account on the front of the check stub for W. A. Gordon (Model Set beginning on page 61) for the month of September, assuming that all payments were made by check, that the investment September 1 was deposited on that date and other deposits were made each time cash was proved, and that the check book contained two checks to the page.

Show the reconciliation of the bank account on October 1 with the statement received from the bank on that date, which shows a balance of \$768.00 and is accompanied by all canceled checks except No. 6.

Proceed as instructed in paragraphs 1 and 2 under Exercise No. 45 above. Illustration No. 58 shows the method of entering deposits and subtracting checks.

QUESTIONS

1. Why do the officials of a bank require reference from a new depositor if they are not personally acquainted with him?
2. What evidence does the depositor have that he has deposited money in the bank?
3. What evidence does the bank have that it has paid a part or all of the money which the depositor has deposited?
4. Why should the bookkeeper retain a copy of each deposit ticket?
5. Name two ways of retaining this copy.
6. What additional information is contained in the copy of the deposit ticket that is not shown by the entry in the pass book?
7. If you were auditing the entries on the receipts side of the cash book, what need would you have for the copies of the deposit tickets and the entries in the pass book?

8. If you were to find a check signed by a local merchant, payable to Robert Jones, and "Robert Jones" was written on the back, how could you obtain the money on this check?
9. If the bookkeeper writes a check and fails to fill out the stub, how will he detect the error?
10. If you were keeping books for a local merchant and he withdrew \$100.00 from the bank by check, using one of the blanks on the counter in the bank, and failed to tell you that he had issued the check, when and how would you learn about it?
11. Name two means of ascertaining the amount of a check if it is removed from a check stub without the stub being filled out?
12. If the bookkeeper makes an error of \$10.00 in subtracting the amount of a check on the check stub, how will he detect the error?
13. If you were keeping books, would you prove cash before making a deposit? Give reasons for your answer.
14. If there is an error of \$10.00 in the addition of a deposit ticket and a corresponding error in the addition in the cash book, when and how will the bookkeeper discover the error?
15. How is a check used in the place of money?
16. Explain why a check which has been paid by the bank may be regarded as a receipt.
17. If you were making a trip in an automobile from New York City to San Francisco, would you prefer your expense funds to be in money, to be deposited in a Chicago bank subject to check, or in money orders? Give reasons for your answer.
18. John Anderson in Atlanta, Georgia, wishes to send \$35.00 to Henry Smith in St. Louis, Missouri. Name four ways by which he can send this, and state which you think would be the best.
19. Why is it better for the bookkeeper to keep the bank account on the front of the check stub?
20. Name three reasons why the statement rendered by the bank on the first of the month might be different from the depositor's record on the check stub.
21. If R. W. Sanderson leaves a check payable to himself at the bank for collection, how will he endorse it?
22. If you were keeping books for a local merchant and received a check from a customer for \$112.50 marked "In full of account", and his account showed a balance of \$117.50, what would you do?
23. Name some of the advantages to the bookkeeper when cash payments are made by check instead of with currency.
24. Why does the bank return the paid checks when it sends the monthly statement?
25. Why is the endorsement written on the left instead of the right end?

Chapter XI

BUSINESS FORMS AND VOUCHERS—Concluded

§ 86. A **Note** is an unconditional written promise to pay a fixed amount of money at a stated time, and is signed by the person or persons agreeing to pay it. If desired, the place at which the note is to be paid may be stated in it. A note has two original parties, the maker and the payee. The maker is the one who signs the note and thereby agrees to pay the amount stated in it; the payee is the one in whose favor the note is made, that is, the one to whom the money is to be paid. A note indicates that the maker is indebted to the payee and acknowledges this indebtedness by agreeing to pay it at the time stated in the note.

¶ 1. *The face of a note* is the amount stated in it. This amount is shown as its value in the account with notes (§ 102, ¶ 1, or § 103, ¶ 2).

¶ 2. *The maturity value of a note* is the amount to be collected at maturity. If a note reads "with interest after maturity", the face is the maturity value; if it reads "with interest from date", the maturity value is the face plus interest at the legal rate from date to maturity.

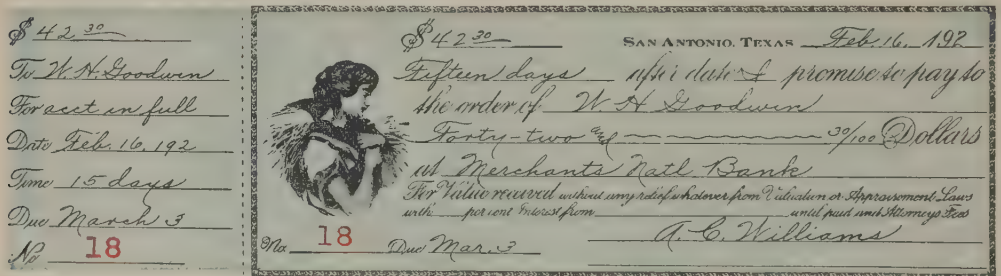


Illustration No. 66, Note With Stub Attached.

EXPLANATION. This note indicates that A. C. Williams owes W. H. Goodwin the amount mentioned and has promised to pay it at the time and place indicated.

§ 87. **Use of Notes.** Notes are used as written evidence of indebtedness resulting (a) from a purchase of merchandise or other property, (b) from a loan, or (c) from an extension of time for the payment of a past-due obligation as shown by an account. With the advantages of the trade acceptance, notes are not often given in payment for merchandise purchased at the time it is purchased. A bank will require written evidence of an obligation resulting from money loaned; the business man may give his own note as evidence of the loan, or he may sell to the bank notes which he has received from his customers. When an account is past due and the customer desires more time, he may make settlement by accepting a draft or by giving his note; the results are the same in that he secures an

extension of time by giving a written promise to pay it at the time specified in the note or draft.

(a) James Brown buys a piano from the Starr Piano Co. for \$500.00. He pays \$100.00 cash and gives four notes for \$100.00 each, due in three, six, nine, and twelve months respectively, in payment for the piano.

(b) The Starr Piano Co. wishes to borrow \$1,000.00 from the bank with which they do business. A note is issued for this amount, bearing interest at 6% from date, payable in ninety days, and this is presented to the bank for credit. The Starr Piano Co. will receive credit for the \$1,000.00 in their pass book in the same manner as for a deposit.

(c) The Acme Amusement Co. purchased an electric player piano from the Starr Piano Co. for \$1,500.00, and paid \$800.00 cash, balance to be paid in thirty days. At the end of the thirty days the Acme Amusement Co. arranged with the Starr Piano Co. for an extension of sixty days by giving their note for \$700.00, with interest, payable to the Starr Piano Co.

§ 88. Endorsement of Notes. There are three reasons for the endorsement of a note: (a) accommodation (security), (b) transfer of ownership, and (c) receipt for part payment. Endorsement for accommodation is usually made as explained in § 85, ¶ 1; endorsement for transfer of ownership is usually made as explained in § 85, ¶ 2; endorsement for a receipt of \$100.00 in part payment of this note is made as follows: "Jan. 10, Received \$100.00 in part payment of this note." The holder will endorse the part payment on the note but should not sign his name because this transfers ownership in case the note gets out of his possession.

Banks sometimes require security in addition to the signature of the business concern borrowing money. Should this have been required of the Starr Piano Co. in the loan of \$1,000.00 mentioned in § 87, (b), one of the individuals who owns an interest in the business would sign his name on the back as explained in § 85, ¶ 1. Should the Starr Piano Co. wish to sell the note received from James Brown, the endorsement would be "in full" as explained in § 85, ¶ 2. If the note was to be transferred to the First National Bank, the endorsement would be "Pay to the order of the First National Bank, Starr Piano Co., by (the name of the person authorized to sign for the company)." Should the Acme Amusement Co. in the illustration pay \$200.00 on the note given in extension of its account, receipt for part payment would be indicated by writing the date and the amount received on the back, as explained above.

§ 89. Effect of Notes on the Bookkeeping Records. When a note is issued by the business, full information in regard to it is retained on the stub from which it was removed. An entry is required in a book of original entry because the note would not have been issued unless value was received; the value received might be an obligation canceled or a new obligation created. If the note cancels a liability, the value received is the discharge of this obligation or liability, hence the account which shows it is debited; if the note creates a new obligation, an asset of equal value is received, hence the value received is this asset, and the account with it is debited; the value parted with in either case is the obligation created by the note, hence the account with notes issued by the business (§ 103, ¶ 2) is credited. When a note is received by the business, it may be in payment for merchandise or other property purchased at the time the note was issued. The value received is the note, hence the account which is to show the amount of notes owned by the business (§ 102, ¶ 1) is debited. The value parted with is the merchandise sold or the account with the customer, hence either the Sales or the customer's account is credited. If desired, the sale can be entered in the sales journal in the same manner as any other sale on account, debiting the customer's account; in this case, the credit to the Sales account will be through the sales journal, hence the credit for the note would be to the customer's account in the same manner as if the note were received in payment of an account already in the ledger.

Transactions in which notes are issued or received by the business are usually recorded in the general journal unless cash is received for a note issued or paid for a note received, in which case the entry is made in the cash book. Special journals may be provided for notes issued and received by the business; these are explained and illustrated in a subsequent chapter.

Referring to the illustrations in § 87:

(a) The sale would be recorded in the sales journal, thus debiting James Brown and crediting Sales; the cash would be recorded in the cash book, thus debiting Cash and crediting James Brown; and the notes would be recorded in the general journal, debiting the account with notes received (§ 102, ¶ 1) and crediting James Brown.

(b) The entry would be made on the receipts side of the cash book, thus debiting Cash and crediting the account with the note issued by the business (§ 103, ¶ 2).

(c) The sale would be recorded in the sales journal, thus debiting the Acme Amusement Co. and crediting Sales; the cash would be recorded in the cash book, thus debiting Cash and crediting the Acme Amusement Co.; the note would be recorded in the general journal, debiting the account with notes received (§ 102, ¶ 1) and crediting the Acme Amusement Co.

§ 90. A Note Should Be Signed by the person or persons responsible for its payment. If an agent is authorized to execute a note for another, he signs the name of his principal and his name below, either preceded by "per" or "by" or followed by "agent"; the omission of the word before or after the agent's name might cause him to be held jointly with the principal. The one who signs a note for another is regarded as the agent, and the one responsible for the payment, as the principal; the agent should have a written statement from the principal authorizing him to sign his name. The holder of a note will expect payment from the person or persons whose names are signed to it; he will also hold responsible for the payment each individual whose name appears on the back of the note.

Referring to the illustrations in § 87:

(a) The notes would be signed by James Brown who purchased the piano.

(b) This note would be signed "Starr Piano Co.," by the individual authorized to sign, usually the president or secretary if it is a corporation, or one of the partners if it is a partnership.

(c) This note would be signed in the same manner as that described in (b) because the name of the company is not that of an individual and means nothing when signed to a note unless accompanied by the name of the individual authorized to sign.

§ 91. A Draft is a written order from one party to another, directing him to pay a certain sum of money to a third party. A draft has three original parties: the drawer, the drawee, and the payee. The one signing the draft is the drawer; the one who is asked to pay the amount is the drawee; and the one to whom the money is to be paid is the payee. The draft indicates that the drawee is indebted to the drawer, and that he (the drawer) wishes the amount paid to the payee. Drafts are usually drawn on blank forms bound in a book, each draft being provided with a stub for a record of the facts shown by the draft. There are three kinds of drafts, *time drafts*, *sight drafts*, and *trade acceptances*.

§ 92. A Time Draft is one payable a certain number of days after presentation; it indicates that the drawer is willing to allow the drawee additional time to make payment of the indebtedness due the drawer. This additional time is indicated by stating in the draft that the amount is to be paid the designated number of days after acceptance. The drawee of a time draft is not obligated to accept it when it is presented by the payee. If he does accept it, this acceptance is indicated by writing across the face of the draft the word "Accepted", followed by the date of acceptance, and the drawee's signature; if desired, the place of payment may also be indicated in the acceptance. If the drawee does not elect to accept the draft when presented to him by the payee, the payee should immediately return it to the drawer so that he may know the drawee has not complied with his request. Illustration No. 67 shows one form of time draft.

1. *An acceptance* is a time draft after it has been accepted. It is the same as a note because the acceptance is the written promise of the person who accepts it to pay the amount mentioned within the number of days stated in the draft. The account which shows a record of notes should also contain a record of accepted drafts.

Draft for \$175.45
 Date June 10, 1922
 On W. H. Goodwin
 Place San Antonio
 Time 30 days
 In favor of W. H. Goodwin
 Acct. of W. H. Goodwin
 No. 71

St. Louis, Mo. June 10, 1922
 At sight
 Order of First Nat'l Bank, San Antonio
 One hundred and seventy-five and 45/100 Dollars
 Value received and charge to account of
 To W. H. Goodwin
 No. 71 San Antonio
 Donaldson & Joy
 By Joy

Illustration No. 67, Time Draft Accepted and Returned.

EXPLANATION. The draft in the illustration was drawn June 10, sent to the bank for presentation and acceptance, presented to the drawee and accepted by him on June 15, and returned to the drawer by the bank. The draft is shown detached from the stub because the date of acceptance was entered on the stub by the bookkeeper for Donaldson & Joy after the draft was accepted and returned.

The bookkeeper should indicate on the stub the final disposition of each sight and time draft drawn by showing the acceptance on the stub as in the above illustration, or, if a sight draft, by entering "Paid" and the date of payment on the stub, or by entering "Returned" and the date on the stub if either the sight or time draft is not paid or accepted. The acceptance of a time draft and the entry on the stub may be made with red or black ink; the use of red ink is optional with the bookkeeper.

§ 93. A **Sight Draft** is one which is payable upon presentation; it indicates that the indebtedness of the drawee to the drawer is due or past due, and that the drawer desires it to be paid immediately. The drawee of a sight draft is not obligated to pay it when it is presented to him by the payee, but if he does pay it, he will hold the draft as his receipt for the payment; if he refuses payment, the payee should return the draft to the drawer at once. Illustration No. 68 shows one form of sight draft.

Draft for \$327.50
 Date Feb. 21, 1922
 On W. H. Goodwin
 Place San Antonio
 Time Sight
 In favor of 1st Nat'l Bk
 Acct. of San Antonio
 No. 97

Chicago, Ill. Feb. 21, 1922
 At sight
 Order of First Nat'l Bank, San Antonio
 Three hundred twenty-seven and 50/100 Dollars
 Value received and charge to account of
 To W. H. Goodwin
 No. 97 San Antonio
 Anderson Bros.
 By J. D. Anderson

NO PROTEST
 TAKE THIS UP BEFORE HELPING.

Illustration No. 68, Sight Draft with Stub Attached.

EXPLANATION. The draft in this illustration indicates that W. H. Goodwin of San Antonio, Texas, owes Anderson Bros. of Chicago, the amount mentioned in the draft. Anderson Bros. have asked him to pay the amount to the First National Bank of San Antonio, Texas. This draft will be sent to the First National Bank with instructions to present it for collection. If W. H. Goodwin pays the draft when it is presented, the bank will write Anderson Bros. to this effect and send a bank draft or cashier's check for the amount collected, less a small collection charge. If the draft is not paid upon presentation, it will be returned to Anderson Bros.

§ 94. A Trade Acceptance is defined by the Federal Reserve Board as "a bill of exchange (time draft) drawn by the seller on the purchaser of goods sold, and accepted by such purchaser", this acceptance being made on the date of purchase or within a few days thereafter. The trade acceptance is in the form of a draft, but it differs from a draft in that it is accepted by the drawee at the time the merchandise is purchased, while the acceptance of a draft is usually after the debt is due, as shown by the drawer's account with the drawee. Trade acceptances and the accounting procedure in connection therewith are discussed more fully in a subsequent chapter.

§ 95. Use of Drafts. Sight drafts are used for collecting past-due debts from out-of-town customers, and for collecting "collect on delivery" freight shipments. Time drafts are used for collecting past-due debts from out-of-town customers, and for changing an account to a written promise to pay at a designated time. Trade acceptances are used to secure written evidence of a sale at the time the sale is made.

September 10 Robert Anderson & Co., Chicago, sell merchandise to James Cowan, Louisville, on thirty days' time. Mr. Cowan fails to send remittance when the debt is due October 10, and Robert Anderson & Co. undertake to make collection by drawing a sight or time draft on him, payable to the First National Bank in Louisville. When this draft is presented, Mr. Cowan will either pay the (sight) draft or accept the (time) draft. If it is a sight draft and paid, the First National Bank will send Robert Anderson & Co. a cashier's check or bank draft in payment; if it is a time draft and accepted, the bank will follow the company's instructions in regard to retaining it for collection or sending it to them.

September 15 Robert Anderson & Co. sell Albert Baker, Springfield, merchandise on ninety days' time. October 10 Robert Anderson & Co. find that it will be necessary for them to borrow money from the bank. They write Albert Baker for the privilege of drawing a sixty-day draft for the amount of his indebtedness. It is quite probable that he will have no objections to accepting the draft because it does not change the time of paying his obligation. If he accepts the draft, Robert Anderson & Co. will have a written statement of the amount he owes and can discount this at the bank and thus secure the money which it needs.

§ 96. Endorsement of Drafts. The only reason for any writing on the back of a draft is to transfer title or to authorize collection. If the payee is a bank located in the same city as the drawer, the endorsement will be for collection as explained in § 85, ¶ 4, to transfer it to a bank in the city where the drawee is located. Several endorsements might be necessary in case the collecting bank sends it through banks with which it does business; the form of endorsement in each case would be the same as that described in § 85, ¶ 4. In case the holder of an accepted time draft wishes to sell it, the endorsement would be "in full" as explained in § 85, ¶ 2.

In the first illustration given in § 95, no endorsement would be required on the sight or time draft in favor of the Louisville bank. If either the sight or time draft had been drawn in favor of the Corn Exchange National Bank of Chicago, it would have been necessary for this bank to send it to the Louisville bank for collection. The endorsement would be as illustrated in § 85, ¶ 4.

When Robert Anderson & Co. discounted the acceptance of Albert Baker, described in the second illustration given in § 95, the endorsement would be "in full" as explained in § 85, ¶ 2.

§ 97. Effect of Drafts on the Bookkeeping Records. When the owner of a business draws a draft on an out-of-town customer, he retains a record of the draft through the stub from which it was detached. Since he does not know that the customer will pay the (sight) draft or accept the (time) draft upon presentation, no additional record is needed in regard to the draft. When the payee advises him of the drawee's action in regard to the draft, he indicates the result on the stub from which the draft was detached. When the drawee accepts a time draft a record of this is made in the general journal because the indebtedness is now in the form of a written agreement (the acceptance indicating this) and the open account is canceled thereby. The value received is the draft, hence the account with accepted drafts (§ 102, ¶ 1) is debited; the value parted with is the

account with the customer (§ 27, ¶ 2), hence it is credited. When the drawee pays a sight draft upon presentation, the payee will send the drawer a cashier's check or bank draft in payment for the draft, the draft having been left with the payee as a receipt. When this remittance is received by the drawer, the customer is given credit on the receipts side of the cash book in the same manner as if he had sent his check in payment of the account.

When the business pays a sight draft drawn on it by a creditor, the same entry is made in the cash book as if a check had been sent direct to the creditor in payment of his account. When the business accepts a time draft drawn on it by a creditor, an entry is required in the general journal; the account with the creditor (§ 28, ¶ 1) is debited because it is canceled, and the account which is to show a record of written promises to pay (§ 103, ¶ 2) is credited because this account will show the indebtedness until it is paid.

§ 98. Protest. Each person or business concern whose name appears as an endorser on any commercial paper (for instance, check, note, or draft) guarantees payment provided the holder will first present the paper to the one who is responsible for payment and thus endeavor to make collection. The law provides that the only evidence the holder can use as a defense in a case of court action is the protest by a notary public. This protest is a form which the notary public sends to each endorser after he has presented the paper to the one responsible for its payment and payment has been refused.

The Starr Piano Co. sells the note received from the Acme Amusement Co. (Illustration "c" in § 87) to the First National Bank, endorsing the note as evidence of transfer. On the date the note falls due, the bank presents it at the office of the Acme Amusement Co. and demands payment from the official who signed the note; payment is refused. The note is given to a notary public and he presents it to the same official. If payment is still refused, he notifies the Starr Piano Co. on the proper legal form. Unless the bank had taken this procedure, the Starr Piano Co. would have been relieved of the responsibility of making payment, and the bank would have lost the amount unless it could collect from the Acme Amusement Co.

Exercise No. 47, Order, Sales Invoice, Acceptance, and Cashier's Check.

May 10 the Davis Printing Company, Pittsburgh, placed an order with Ault & Wiborg, Cincinnati, manufacturers of printer's ink, for 150 lbs. of printer's ink (black) at \$1.25, and 75 lbs. of printer's ink (blue) at \$1.50. May 15 Ault & Wiborg acknowledged receipt of this order by an invoice. The merchandise was billed net 30 days and shipped via Steamer Queen City. The Davis Printing Company had not paid this invoice June 15 and Ault & Wiborg drew a draft at ten days' sight, payable to the Mellon National Bank in Pittsburgh, and sent the draft to it for acceptance and collection. The bank presented the draft June 17 and the Davis Printing Company accepted it. June 25 the bank notified the Davis Printing Company that the draft was due June 27. The Davis Printing Company paid the draft by check on the Mellon National Bank the day it was due. June 28 the bank sent a cashier's check for the amount of the draft less \$1.00 collection charges.

Prepare the purchase order which the purchasing agent for the Davis Printing Company would issue, the sales invoice which the bill clerk for Ault & Wiborg would make, the draft which the bookkeeper for Ault & Wiborg would draw, the acceptance which the bookkeeper for the Davis Printing Company would make on this draft, and the cashier's check which the cashier of the Mellon National Bank would send to Ault & Wiborg.

Exercise No. 48, Order, Sales Invoice, Sight Draft, and Cashier's Check.

September 25 the Starr Piano Co., Chicago, sold the Jones Piano Co., Milwaukee, 100 Victrola records at 51c, terms 30 days; shipment was made via American Railway Express, charges collect. October 28 the bookkeeper for the Starr Piano Co. drew a sight draft on the Jones Piano Co. for the amount of this invoice,

payable to the First National Bank in Chicago, and left it with the bank for collection. The bank sent the draft to the Second National Bank in Milwaukee with instructions to present it to the Jones Piano Co. for payment. The draft was paid by John Nash, an employee of the Jones Piano Co., upon presentation by a clerk of the Milwaukee bank, and the Milwaukee bank sent the Chicago bank a cashier's check for \$50.75, retaining 25c for collecting the draft. The Chicago bank notified the Starr Piano Co. that the draft had been collected and their account credited with \$50.75, the proceeds of the draft.

Prepare the purchase order which the purchasing agent for the Jones Piano Co. would issue, the sales invoice which the clerk for the Starr Piano Co. would make, the draft which the bookkeeper for the Starr Piano Co. would draw, and the cashier's check which the First National Bank of Chicago would receive from the Second National Bank of Milwaukee. Show the endorsement which the Chicago bank would make on the draft before sending it to the Milwaukee bank, and the entry the Chicago bank would make in the pass book of the Starr Piano Co. for the cashier's check received in payment for the draft.

Exercise No. 49, Notes, Time Drafts, Sight Drafts, Bank Drafts, and Checks.

The following transactions in connection with notes and drafts were completed by the Central Hardware Company of Buffalo during July and August:

- July 1. Received from Trowe Bros., Watertown, in full of account, a note for \$525.65, dated June 29, due in two months, with interest at 6% after maturity, payable at the First National Bank of Watertown.
- July 28. Accepted a draft drawn July 26 by the Harding Mfg. Co., Little Falls, for \$1,214.60, payable at thirty days' sight. This draft was drawn in favor of the Citizens National Bank, Little Falls, and sent by this bank to the Third National Bank of Buffalo, which presented it for acceptance.
- Aug. 17. Paid by check on the Third National Bank of Buffalo a sight draft for \$275.60, drawn by Rand & Co., Cleveland, Ohio, August 15.
- Aug. 27. Gave the Third National Bank of Buffalo a check for \$1,214.60 in payment for a bank draft drawn on the Chase National Bank, New York City, for the same amount, and sent this draft to the Harding Mfg. Co., Little Falls, in payment for the acceptance of July 28.
- Aug. 31. Received from Trowe Bros. a new note, dated August 29, with interest at 6% from date, due in two months, payable at the First National Bank of Watertown, and a cashier's check for \$300.00 drawn on the First National Bank of Watertown by M. A. Rand, cashier, in our favor, in payment for their note due today.

Prepare the following business forms:

1. The note required in the transaction of July 1.
2. The draft required in the transaction of July 28, with all endorsements.
3. The draft and check required in the transaction of August 17.
4. The check and bank draft required in the transaction of August 27.
5. The note and cashier's check required in the transaction of August 31; the new note should be made payable at the same bank as the one renewed.

QUESTIONS

1. Would the Horne Department Store, Pittsburgh, draw a sight draft on C. A. Eades, 1262 Penn Ave., Pittsburgh, to collect a debt due from him? Why?

2. Would this concern accept a note in settlement of the account?
3. U. B. Sweet owes the Candy Kitchen an account of \$100.00 and secures an extension of sixty days by giving his note for this amount, due at the expiration of that time. (a) Have his liabilities decreased? (b) Have the assets of the Candy Kitchen increased? (c) To whom will the note be paid?
4. Why should a draft be made payable to the bank at which the drawee does business?
5. Would you consider it fair for one of your creditors to draw a sight or time draft on you for an amount you owed without first notifying you?
6. Is it necessary for the drawee of a draft to pay or accept it when presented? Why?
7. In what respects is a sight draft similar to a check?
8. In what respects is an accepted time draft similar to a note?
9. If you sell merchandise to a customer in another city, how will you expect him to pay for the merchandise?
10. Would you consider it fair for this customer to send you a draft drawn on one of his customers in your city, asking you to collect your debt from this customer?
11. How does the drawee of a time draft indicate that he will pay the amount of the draft?
12. How does the drawee of a sight draft indicate that he will pay the amount of the draft?
13. Explain the use of notes and drafts in business
14. If the drawee pays a sight draft, what accounts are debited and credited?
15. If the drawee accepts a time draft, what account shows the value received? the value parted with?
16. What accounts are affected when the owner of the business accepts a note from a customer in full of account?
17. Name the accounts debited and credited when the business issues a note (a) for borrowed money, and (b) to pay a creditor.
18. What accounts represent the value received and the value parted with to the drawee of an accepted draft? To the drawer?
19. Why is a draft endorsed? a note? a check?
20. Distinguish between the face value and maturity value of a note.
21. If John Smith transfers a check to you by endorsement and the bank refuses payment of the check because the one who drew it did not have sufficient funds on deposit, how would you notify John Smith of the bank's action so as to hold him responsible for the amount of the check?
22. Why is it advisable to have the receipt of part payment for a note endorsed on the back instead of acknowledged by a separate receipt?
23. Why is it advisable for the holder of the note not to write his name in connection with the endorsement of a receipt for part payment?
24. Explain the difference between a note and a check.
25. Whom does the holder of a note hold responsible for its payment?

Chapter XII

ACCOUNTS WITH FIXED ASSETS, NOTES, AND INTEREST

The Purpose of this Chapter is to explain accounts with fixed assets, notes and interest. A knowledge of these accounts is necessary because they are needed in the recording of business transactions. Equipment is needed in connection with the operations of the business; transactions frequently occur involving the use of notes and drafts; and interest cost and interest income must be recorded.

§ 99. **Fixed Assets.** The building or place in which the business conducts its operations usually requires certain fixtures necessary in connection with the operations of the business; these include shelving, show cases, desks, typewriters, filing cases, etc. This property, when purchased, becomes a part of the assets of the business; such assets are usually referred to as "fixed assets" to distinguish them from "current assets", such as cash, merchandise in stock, accounts due from customers, etc. The value of property purchased for use in the business is recorded in a special account or accounts, in such a way that the cost value of the property will always be shown; the balance should show cost to facilitate insurance adjustment in case of fire and to determine the yearly depreciation which is based on the cost. The Furniture and Fixtures account is the only fixed asset account discussed in this chapter; a more complete discussion will be given in a subsequent chapter.

FURNITURE AND FIXTURES ACCOUNT

§ 100. **The Purpose of this Account** is to show the cost value of property purchased for use in the office and store room, which includes desks, filing cabinets, typewriters, show cases, scales, etc. A permanent record of each article purchased should be kept, either in the explanation column of the account or in a separate inventory book.

Debit the Furniture and Fixtures Acct.:

¶ 1. For the value of furniture and fixtures on hand at the beginning of business, and for the cost value of such property purchased.

Credit the Furniture and Fixtures Acct.:

¶ 2. For the cost value of furniture or fixtures sold, the cost of which was debited to this account when purchased.

¶ 3. *The Balance of the Furniture and Fixtures Account* shows the cost value of the furniture and fixtures owned by the business* as the result of transactions in which furniture and fixtures were purchased or sold. It is shown on the Balance Sheet as one of the "Fixed Assets".

§ 101. **Transactions with Notes and Accepted Drafts** require accounts in which to record them. The reason for this is that a note is a written agreement, while the amount in an account is subject to dispute even though it may be supported by business forms. Thus the account with James Atkin may show a debit balance of \$250.00, but this does not mean that Mr. Atkin will pay \$250.00 because there might have been an error in recording the amount. On the other hand, if James Atkin has given the business a written promise to pay \$250.00 on a definite date, this is not subject to dispute as he will be required to pay this amount.

(Concluded on page 127.)

*The nature of the property will determine the method of taking care of the decrease in value due to wear and tear resulting from use; this is explained in a subsequent chapter under the subject of "Depreciation".

Should the written promise remain in possession of the business and errors develop which change the amount, credit might be allowed for these errors; but, if the business has sold the note, the holder will expect Mr. Atkin to pay the full amount. For the reasons stated, it is customary to record the amount of each written promise (note or acceptance) in which money is to be paid to the business, in a "Notes Receivable" account, and each written promise (note or acceptance) in which the business promises to pay money, in a "Notes Payable" account.

NOTES RECEIVABLE ACCOUNT

§ 102. The Purpose of this Account is to show the amount due to the business as evidenced by written obligations; these include notes (§ 86) signed by others and time drafts (§ 92) accepted by others.

Debit the Notes Receivable Account:

Credit the Notes Receivable Account:

¶ 1. For the face of each note or acceptance* owned by the business at the beginning, and for the face of each note or acceptance* received during the operations of the business.

¶ 2. For the face of each note or acceptance* when collected, discounted†, or transferred. Partial payments are indicated as in § 27, ¶ 5.

¶ 3. *The Balance of the Notes Receivable Account* shows the value of the notes and acceptances belonging to the business as the result of transactions completed with notes and drafts receivable. It is shown on the Balance Sheet as a current asset, and is usually listed between "Cash" and "Accounts Receivable".

NOTES PAYABLE ACCOUNT

§ 103. The Purpose of this Account is to show the amount owed by the business as evidenced by written obligations; these include notes (§ 86) signed by the business and time drafts (§ 92) accepted by the business.

Debit the Notes Payable Account:

Credit the Notes Payable Account:

¶ 1. For the face of each note or acceptance when paid. Partial payments are indicated as in § 28, ¶ 5.

¶ 2. For the face of each note or acceptance‡ owed by the business at the beginning, and for the face of each note signed or time draft accepted‡ by the business during its operations.

¶ 3. *The Balance of the Notes Payable Account* shows the value of the notes and acceptances owed by the business as the result of transactions completed with notes and drafts payable. It is shown on the Balance Sheet as a current liability, and is usually listed before "Accounts Payable".

§ 104. Interest is the use of money. The premium paid or received for this use is also referred to as interest. To illustrate: A borrowed \$100.00 from B on twelve months' time, and at the end of the year paid \$106.00, the principal and the interest. A paid \$6.00 for the use of the money borrowed, hence this amount is an interest cost to him; B received \$6.00 for the use of the money loaned, hence the amount is interest earned for him.

*Trade acceptances are usually shown in an account with Trade Acceptances Receivable; this is discussed in a subsequent chapter.

†If notes and drafts discounted are credited to a Notes Receivable Discounted account, Notes Receivable is not credited until they are paid; this is discussed in a subsequent chapter.

‡Trade acceptances are usually shown in an account with Trade Acceptances Payable; this is discussed in a subsequent chapter.

¶ 1. *Discount* is interest paid in advance, that is, the one who borrows the money pays the lender the interest at the time the loan is made and not at its maturity. It is customary with many banks to deduct the interest from the face of notes received as evidence of loans; the borrower receives cash or credit in his pass book for the proceeds. The borrower may, if he desires, give the bank his check for the interest, in which case he receives credit for the face of the note.

To illustrate: A borrowed \$500.00 from his bank, giving his note payable in ninety days from date, as evidence of the obligation. The bank charges him eight per cent interest. When he presents his note for credit, he will either receive credit for \$490.00, or give the bank his check for \$10.00 and receive credit for \$500.00. In either case the \$10.00 is regarded as interest. Interest paid in advance may be termed "discount", but it is better to consider all amounts paid for the use of money as "interest", whether the amounts are paid at the time the debt is created or at the time it is paid.

¶ 2. *Legal Rate.* To prevent unreasonable charges for the use of money, the various states have enacted laws fixing the rate that may be collected; this is termed the legal rate. Some states provide that a higher rate may be collected if mentioned in the contract; this is termed the contract rate. Both the legal and the contract rate are based on a fixed charge for one year; thus 6% indicates that \$6.00 may be collected for each \$100.00 for one year.

¶ 3. *Time.* The time is the number of days, months or years for which interest is to be calculated. In the case of a note the time is stated. A note dated March 10, due in 90 days, would be due June 8. The same note if payable in three months would be due June 10.

¶ 4. *Method of Calculating Interest.* A business year is regarded as 360 days—12 months, 30 days in each month. Since 6% is the legal rate in the majority of states, and it is an aliquot part of 60, there are many rules for calculating interest based on this. One of the simplest methods, especially where the time is less than 100 days, is as follows: multiply the principal with the decimal place moved three places to the left by the result obtained by dividing the number of days by six. The result is the interest at 6%.

To illustrate: Calculate the interest on \$942.75, for 48 days, at six per cent. Move the decimal point three places to the left, multiply this amount by 8 (48 divided by 6). The result is 754.200. As there are five decimal places in the multiplicand, there must be five decimal places in the product, which gives the interest, \$7.54. The fraction to the right of this is less than one-half, and is not used. If it had been one-half or more, the interest would have been \$7.55. Do not drop the fraction until the final result is obtained.

When the rate of interest is not 6%, divide the amount of the interest at 6% by six; this gives the interest at 1%. Multiply this by the given rate, and the result is the interest on the given amount at the given rate. To illustrate: Calculate the interest on \$368.95 for 48 days, at 8%: \$368.95 with the decimal point moved three places to the left is .36895. $48 \div 6 = 8$; $.36895 \times 8 = 2.95160$ (interest at 6%). $2.95160 \div 6 = .49193$ (interest at 1%); $.49193 \times 8 = 3.93544$ or \$3.94, interest on \$368.95 for 48 days, at 8%.

§ 105. *Accounts with Interest.* Interest cost and interest earned should be recorded in separate accounts. While all the transactions with interest could be recorded in one account, debiting it with interest cost and crediting it with interest earned, yet it is better to keep two accounts because the balance of the one account would not mean anything to the owner of the business. Where the transactions with interest are recorded in two accounts, the information given the owner on the Statement of Profit and Loss will show the net interest cost to him separate from the net interest earned; if the transactions had all been recorded in one account, the balance would not show this information, but only the difference between the total interest cost and the total interest earned. For the reason stated it is customary to record interest transactions in which the business gives cash or other property for interest, in an account with "Interest Cost", and those transactions in which the business receives cash or other property for interest, in an account with "Interest Earned".

INTEREST COST ACCOUNT

§ 106. The Purpose of this Account is to show the cost of interest to the business, made necessary by the business having to pay for the use of money.

Debit the Interest Cost Account:

¶ 1. For interest cost on accounts and notes payable.* Cash is usually credited, but some other asset might be given in payment of interest. (§ 104, ¶ 1.)

Credit the Interest Cost Account:

¶ 2. For any deductions which reduce the cost of interest as shown by the debit side.

¶ 3. *The Balance of the Interest Cost Account* shows the net cost of interest to the business. It is shown on the Statement of Profit and Loss as Interest Cost under the caption "Deductions from Income".

INTEREST EARNED ACCOUNT

§ 107. The Purpose of this Account is to show the returns from interest to the business, resulting from others paying (in advance or at maturity) for the use of money which belongs to the business.

Debit the Interest Earned Account:

¶ 1. For any deductions which reduce the income from interest as shown by the credit side.

Credit the Interest Earned Account:

¶ 2. For interest income from accounts and notes receivable.† Cash is usually debited, but some other asset might be received for interest earned.

¶ 3. *The Balance of the Interest Earned Account* shows the net returns from interest to the business. It is shown on the Statement of Profit and Loss as Interest Earned under the caption "Other Income".

SUMMARY

§ 108. General Rule for Debits and Credits. Debit the account which represents the value received and credit the account which represents the value parted with. This rule may be more explicitly expressed as follows:

Debit the Account which represents:

- (a) The cash received or property purchased.
- (b) The person to whom cash is paid or property is sold on account.
- (c) The service for which cash or other property is given in payment.

Credit the Account which represents:

- (d) The cash paid or property sold.
- (e) The person from whom cash is received or property is purchased on account.
- (f) The service for which cash or other property is received.

The above rule was not given at the beginning because the student might have felt obligated to memorize it, and this is not desirable. It is given at this time in order that the student may correlate it with the preceding discussion and his knowledge of the principles gained from the exercises and practice set.

In the formula given, (a) applies to ¶ 1 under the discussion of the Cash, Purchases, Notes Receivable, and Furniture and Fixtures accounts; (b) to ¶ 1 under the discussion of the Accounts Payable and Accounts Receivable accounts,

(Concluded on page 130.)

*Accrued interest on accounts payable, notes payable, and bonds payable will be discussed later.

†Accrued interest on accounts receivable, notes receivable, and bonds owned by the business will be discussed later.

*

and to ¶ 2 of the Capital account; (c) to ¶ 1 of the Expense, Interest Cost, and Interest Earned accounts; (d) to ¶ 2 of the Cash, Sales, and Furniture and Fixtures accounts; (e) to ¶ 2 of the Accounts Receivable and Accounts Payable accounts, and to ¶ 4 of the Capital account; (f) to ¶ 2 of the Expense, Interest Cost and Interest Earned accounts.

The student should learn to record transactions with the same ease that the driver operates an automobile. He can do this only by constant practice. The purpose of the exercises in connection with the discussion and the practice set was to afford this practice. The first thought in the mind of the bookkeeper when a transaction is presented to him should be the value received and the value parted with; the second, the accounts that represent these values; the third, the book of account in which to make the record; and the fourth, the process of recording so as to show these facts.

OUTLINE OF ACCOUNTS

§ 109. **The Outline** below includes those accounts which have been discussed in the preceding chapters. These are classified as current assets, fixed assets, current liabilities, capital, income, operating, and special profits and losses.

Current Assets.....	{ Cash Inventory of Merchandise Notes Receivable Accounts Receivable	Used in the preparation of the Balance Sheet; sometimes referred to as "real" accounts.
Fixed Assets.....	{ Furniture and Fixtures	
Current Liabilities.....	{ Notes Payable Accounts Payable	Used in the preparation of the Statement of Profit and Loss; sometimes referred to as "nominal" accounts.
Capital.....	{ Proprietor, Capital	
Trading (Income).....	{ Sales Purchases Merchandise Inventory	
Operating (Cost).....	{ Expense	
Special Profit and Loss..	{ Interest Earned Interest Cost	

Current Assets are those assets which are in the form of cash or which will be converted into cash in the regular operations of the business; they are usually the result of transactions in connection with the purchase and sale of the commodities in which the business deals.

Fixed Assets refer to the property purchased for use in the business.

Current Liabilities are those liabilities which will have to be paid within a short time after they are incurred; they usually represent debts incurred in connection with the purchase of merchandise.

Capital refers to the investment of the proprietor.

Trading or Income Accounts are those accounts which show the profit resulting from the operations of the business. Each business is organized to make a profit through certain specific operations, as selling merchandise (mercantile business), selling service (telephone business), etc.

Operating Expenses refer to the cost of operating the business, which includes rent, heat, light, telephone service, salaries, etc.

Special Profits and Losses refer to those profits and losses which occur outside of the regular operations of the business and may occur in one fiscal period but not in another.

Exercise No. 50, Notes and Drafts.

Record in journal form, with appropriate explanation, the following transactions completed by James Whitcomb, a dealer in farm implements:

- Jan. 5. Sold Jonathan Rigden, Centerville, one tractor, \$850.00. Received in payment his check for \$250.00 and three notes for \$200.00 each, due in three, six and nine months respectively, with interest at 6% from date.
10. Purchased from the Orrville Mfg. Co., Mansfield, on 90 days' time, merchandise per purchase invoice dated January 7, \$1,295.60.
15. Sold Robert Shook, Scottsboro, on 30 days' time, farm implements per sales invoice rendered, \$425.00.
22. Accepted the Orrville Mfg. Co.'s 90-day draft for \$1,000.00 on account of purchase of the 10th.
25. Borrowed \$800.00 from the bank on Mr. Whitcomb's 60-day note, bearing interest at 6%. Received credit in the pass book for the face of the note.
31. Sold S. W. Walker, Clinton, on 30 days' time, farm implements per sales invoice rendered, \$209.75.
- Feb. 1. Discounted at the bank the three-months note received from Jonathan Rigden January 5. Received credit in the pass book for the face of the note, per special agreement.
14. Received from Robert Shook in settlement for the merchandise sold him January 15, his note for \$300.00, due in three months, and his check for the balance of the account plus three months' interest on the note at 8%.
28. Sold W. H. Miller, City, one tractor, \$1,050.00. Received in payment his check for \$150.00 and three notes for \$300.00 each, due in three, six, and nine months respectively, with interest at 6% from date.
- Mar. 8. Drew a 30-day draft through the Union Bank at Clinton on S. W. Walker for the merchandise sold him January 31. Sent the draft to the bank for acceptance, with instructions to retain it for collection if accepted.
15. Discounted at the bank the three- and six-months' notes received from W. H. Miller February 28. Received credit in the pass book for \$588.00, the proceeds of the notes, per special agreement.
16. Received notice from the Union Bank at Clinton that the draft drawn on S. W. Walker March 8 was accepted March 11, and the bank would hold the draft for collection at maturity per our instructions.
24. Gave the bank in payment for the note discounted January 25 a new 60-day note for \$500.00, with interest from date, and our check for the balance of the old note and interest on same at 6% for sixty days.
25. Purchased from the Orville Mfg. Co., Mansfield, on 90 days' time, merchandise per purchase invoice dated March 20, \$2,546.52.
- April 1. Received from Jonathan Rigden a check for \$203.00 in payment for his three-months' note given January 5 and interest, the bank having failed to send him a notice.
3. Sold M. B. Adams, Uniontown, one thresher with full equipment, \$1,500.00. Received in payment \$500.00 cash, a 60-day note for \$500.00, and a 90-day note for \$500.00, each with interest at 6%.
14. Received a cashier's check from the Union Bank at Clinton for \$208.50 in payment for the draft accepted by S. W. Walker, less \$1.25, their charges for collection.

- April 20. Gave our bank a check for \$498.58 and the 60-day note received from M. B. Adams April 3, in settlement for the 90-day draft drawn by the Orville Mfg. Co. and accepted by us January 22; the bank accepted the Adams note at its present value, \$501.42 (face value, \$500.00, plus interest to date, \$1.42).
25. Received a check from W. H. Miller in payment for the nine-months note received February 28, for the face of the note and interest from the date of the note up to and including April 24.
- May 1. Gave the Orville Mfg. Co. the 90-day note received from M. B. Adams April 3, our note for \$1,000.00 due in ninety days, our note for \$1,000.00 due in four months, and our check for \$374.79 in payment for balance due on the purchase invoice of January 10 and in full of purchase invoice of March 25, and interest on our notes at 6% from date; the Orville Mfg. Co. accepted the Adams note at its present value, \$502.33 (face value, \$500.00, plus interest to date, \$2.33).
10. Sold C. H. Becker, Lexington, one thresher and outfit, \$1,800.00. Received in payment his check for \$300.00, and three notes for \$500.00 each, due in 30, 60, and 90 days respectively, with interest at 6%.
15. Purchased from the Orville Mfg. Co., Mansfield, on 90 days' time, merchandise per purchase invoice dated May 12, \$1,365.90.
18. Sold Robert Shook, Scottsboro, one tractor, \$850.00. Received on account of this sale his check for \$150.00 and a note for \$600.00 in his favor, signed by B. A. Small, dated March 7 and payable in ninety days. Allowed him credit for the proceeds of the note, which include the face and interest at 6% from the date of the note to May 18. The balance of this account is to be paid within thirty days.
- June 1. The bank notified us that the three-months note for \$300.00 received from W. H. Miller February 28 and later discounted, has not been paid. Gave the bank our check for \$4.50 interest and our note for \$300.00, with interest at 6% from date, payable in thirty days.
- Debit the account with W. H. Miller for the face of the note plus the interest, and credit Notes Payable and Cash.
3. Received from Robert Shook a 3-months note for \$200.00, dated June 2, and a check for \$104.00 in payment for 3-months note dated February 14, and interest on the new note at 8% from date to maturity.
12. Received from C. H. Becker his check for \$502.50 in payment for 30-day note dated May 10 and interest at 6% on the same from date of the note up to and including June 9.

Exercise No. 51, Sight Draft.

Dean & Dean					Salt Lake City, Utah				
192					192				
June	1	C.9	561	80	May	1	30 days P.1	561	80
July	15	C.11	2300		June	15	30 .. P.2	2894	20
Aug.	1	C.13	2200		Aug.	5	30 .. P.4	2647	50
	15	C.15	2394	20	Sept.	9	30 .. P.5	439	40
Sept.	4	C.15	2200		Oct.	16	30 .. P.6	758	65

John C. Franklin of Scranton, Pa., owes Dean & Dean of Salt Lake City as shown by the account (in the ledger of John C. Franklin) in the illustration above. Dean & Dean have drawn the draft at the top of page 133 in settlement

of the past due items of August 5 and September 9, with interest at 6% from the due date up to and including the date of the draft.

\$892.91

Salt Lake City, Utah, Nov. 1, 1912

At sight Pay to

the order of Union Natl Bank, Scranton

Eight Hundred Ninety-two and $\frac{91}{100}$ Dollars

Value received, and charge the same to account of

To John C. Franklin } Dean & Dean

No. 34 Address Scranton } Pa. By C. Ernst

The student is required to show the following:

- (1) Interest calculations made to approve the amount of the draft.
- (2) The entry in journal form that the drawee would make when he paid the draft.

Exercise No. 52, Note Transferred.

Charles Langan

Cincinnati, O.

1912					1912				
Mar.	2	15 days	L. 1	42 60	Mar.	17		L. 2	42 60
Apr.	5	15 "	L. 3	85 90	Apr.	20		L. 4	85 90
	28	15 "	L. 4	a 66 19	May	13		L. 6	a 50
May	8	15 "	L. 5	b 149 21		23		L. 6	b 50
June	5	15 "	L. 7	204 30					
July	2	15 "	L. 9	28 30					

The check shown below and the note at the top of page 134 were received in payment for the account in the illustration above. The customer pays interest on the past-due items from their due date to the date of settlement as shown by the date of the check. He is allowed the accrued interest in the note from date up to and including the date of settlement.

Cincinnati, August 1, 1912 No. 480

The Central Trust Company ¹³⁻³⁹

Pay to the order of John C. Franklin \$98.38

Ninety-eight and $\frac{38}{100}$ Dollars

On full of account Charles Langan



\$250⁰⁰ Columbus, O. June 2, 1912

Ninety days after date I promise to pay to
the order of Charles Langan

Two Hundred Fifty ²⁵/₁₀₀ Dollars

at City National Bank, Columbus

For Value received, without any ^{benefit} whatsoever from Valuation or Appropriation Laws
with 6 per cent. interest from date until paid and Attorney's Fees

No 50 Due Aug. 31

Arthur Phillips

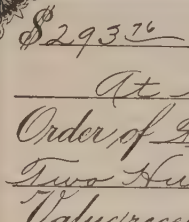
The student is required to show the following:

- (1) Interest calculations made to approve the amount of the check.
- (2) Endorsement to transfer the note.
- (3) The entry in journal form required to close the account and show a record of the interest and note.

Exercise No. 53, Time Draft.

Edwin B. Norris					Stockton, Calif				
1912	Mar.	5	90 days	\$2	261 50	1912	May	1	66 u 200
		10	60 "	\$5	2692 30			15	66 u 200
	Apr.	15	60 "	\$31	309 15				

The draft in the illustration below was drawn in settlement for the balance of the sale made March 10 as shown by the debit to the account with the customer in the illustration above. Interest at 6% for thirty days on the balance due on this sale was included in the face of the draft.



\$293⁷⁶ Portland, Oregon, June 1, 1912

At thirty days sight Pay to the

Order of First National Bank, Stockton

Two Hundred Ninety-three ⁷⁶/₁₀₀ Dollars

Value received and charge to account of

To Edwin B. Norris | Hodge & Co.

No 52 Stockton, Calif | By B. M. Reed

The student is required to show the following:

- (1) Interest calculations made by the bookkeeper when he ascertains the amount of the draft.

(Concluded on page 135.)

(2) The stub from which the draft was detached.

(3) The entry in journal form made by the bookkeeper who drew the draft, assuming that the bank presented the draft to Mr. Norris and he accepted it.

Exercise No. 54, Sight Draft, Note, and Check.

The illustration below shows an account with a creditor and accounts with two customers as they appear in the ledger of the Cochran Mfg. Co., Toledo, Ohio, also a note received from one of these customers.

Auto Radiator Repair Co.

192					192				
Jan.	-	30 days	L.	264 95	Jan.	10		C.2	150
	2	30 "	L.2	117 38		16		C.2	100
Feb.	16	30 "	L.8	98 56	Feb.	1		C.4	50
	28	30 "	L.12	365 40	Mar.	1		C.6	150
Mar.	5	30 "	L.16	275 36	Apr.	1		C.8	100

A. Strange & Co.

Jackson, Ohio

192					192				
July	18		C.3	416 40	May	19	60 days	P.1	416 40
Sept.	1		C.7	150	June	17	30 "	P.4	211 85
Oct.	1		C.9	200		22	60 "	P.5	562 90
Nov.	1		C.11	200	July	17	60 "	P.11	375 50
Dec.	1		C.13	300	Aug.	29	30 "	P.27	459 65

The R. H. Donnelly Company

City

192					192				
Jan.	9	30 days	L.2	416 21	Feb.	8		C.5	200
	31	30 "	L.7	509 27	Mar.	1		C.7	300
Feb.	12	60 "	L.14	391 90	Apr.	1		C.9	200
Mar.	9	60 "	L.31	478 62	May	1		C.11	500
Apr.	11	30 "	L.49	629 50	June	1		C.13	400
	29	60 "	L.59	418 50					



\$1000⁰⁰ Toledo, Ohio, MAY 1-192 19

Six months after date I promise to pay to the order of The R. H. Donnelly Company

One Thousand and ⁰⁰/₁₀₀ Dollars

at Second National Bank

Value received with 6% interest from date.

No. 4 Due NOV 1-192 R. B. Mattingly.

(Concluded on page 136.)

The following is required:

(1) Draw at sight on the Auto Radiator Repair Co. for the balance due June 1st, including interest at 6% on all past due items, less interest at 6% on the payments, up to and including June 1, the date of the draft. Make the draft payable to a bank in the city in which the school is located, it being assumed that this city is the address of the Auto Radiator Repair Co.

(a) Show in journal form the entry made by the bookkeeper for the Cochran Mfg. Co. to record the draft and interest.

(2) Prepare a sixty-day interest-bearing note in favor of A. Strange & Co., payable at the Jackson National Bank, for the balance due January 1, including interest at 6% on all purchases from the due date up to and including January 1, and allowing interest on all payments at 6% from date up to and including January 1.

(a) Show in journal form the entry made by the bookkeeper for the Cochran Mfg. Co. to record the note and interest.

(3) July 1 R. H. Donnelley of the R. H. Donnelley Company wishes to transfer the note illustrated at the bottom of page 135, and give the company's check in settlement for the account. He is to pay interest on each past-due item and to be allowed interest on each payment from date up to and including July 1, also to be allowed credit for the accrued interest in the note.

(a) Write the check for Mr. Donnelley to sign.

(b) Show the calculations necessary to ascertain the amount of the check.

(c) Show in journal form the entry necessary to close the account and to record the value of the note and interest.

Exercise No. 55, Journal Entries, Notes and Drafts.

Journalize the following transactions using the numbers as the days of the current month, and present the work to the teacher for approval.

1. Gave Simpson Bros. our sixty-day note, dated today, for \$250.00, to apply on account.

2. John Howard gave us his thirty-day note, dated today, for \$128.36, in full of account.

3. Sold James Morgan, on his note for thirty days, 200 bu. oats at 49 cents.

4. Received \$150.00 from A. C. Williams, in payment of his note due today.

5. Accepted Martin Bros.' ten-day draft for \$329.86, in part payment of account.

6. Received \$286.48 from M. J. Thompson, on his note, due today.

7. Bought from the Hall Safe & Lock Co., for \$200.00, one fireproof safe, and gave in payment check for \$50.00, and our note due in sixty days, for \$150.00.

8. Drew a ten-day draft on A. C. Weaver for \$150.00, the balance he owes us, and sent the draft to Arnold Bros., to apply on the account we owe them. Mr. Weaver has accepted the draft.

Transactions of this nature are not fair to the creditor, but when they occur, the one who draws the draft (drawer) debits the account with the creditor to whom the draft is given (payee), and credits the account with the customer on whom it is drawn (drawee), if the draft is accepted or paid. The drawee debits the account with the drawer, and credits the Notes Payable account if he accepts the (time) draft or the Cash account if he pays the (sight) draft. The payee debits the Notes Receivable account if the (time) draft is accepted or the Cash account if the (sight) draft is paid, and credits the account with the drawer.

9. Bought from Payne & Hart, merchandise per invoice of this date, \$869.48. Gave in payment our ninety-day note, dated today.

10. James Milligan gave us his note for \$125.00, due in thirty days from today to apply on account.

11. Received from R. M. Upman, a ten-day draft on Hall Bros., for \$150.00, to apply on an account Upman owes us. Hall Bros. have accepted the draft.

12. Purchased from Remington Typewriter Co., one No. 11 Remington typewriter, for \$100.00. Gave in payment our check for \$25.00, and three notes for \$25.00 each, due in thirty, sixty and ninety days.

This transaction requires an entry with one debit and four credits—one for cash paid and one for each note.

13. Drew a ten-day draft on Yeager Bros. for \$354.81, the amount they owe us, and sent it to Dawson & Perry to apply on account. (See instructions in No. 8.)

14. J. J. Darling gave us his note for \$175.00 due in sixty days from today, and his check for \$86.14, in full of account he owes us.

15. Bought from the Consolidated Milling Company, merchandise per invoice of this date, \$689.28. Gave in payment a note which we hold (Notes Receivable) for \$127.65, our note due in thirty days for \$400.00, and our check for the balance.

16. Borrowed \$400.00 from the bank on our thirty-day interest-bearing note for this amount.

17. Accepted Marblehead & Co.'s draft at ten days for \$681.29, in full of account.

18. Paid Donaldson Bros. \$250.00 in payment of a note which is due today.

19. Our note for \$500.00 is due at the bank today. Gave them a check for \$250.00, and a new note with interest for \$250.00 in settlement of this.

20. Accepted Martin Bros.' ten-day draft for \$150.00, to apply on account.

21. Paid our note for \$200.00 due today.

22. Our note for \$800.00, in favor of Stillman Bros., is due today. We have settled the same by giving them our check for \$300.00, and two interest-bearing notes for \$250.00 each, due in thirty and sixty days, respectively.

23. Robert Davis owes us a note for \$627.65, which is due today. He settles the same by giving us his note for \$300.00, a note for \$127.65 signed by us that has been transferred to him, and his check for the difference.

24. A. L. Day owes us \$582.65. He settles the account as follows: his thirty-day note for \$250.00, our note for \$210.00 (Notes Payable) which he holds, and his check for \$122.65.

25. We owe Anderson Bros. \$427.55. They accept our check for \$127.55 and three notes of equal amount dated today, due in thirty, sixty and ninety days in full of account.

QUESTIONS

1. Under what conditions would the cost of a desk be debited to the Purchases account?
2. Under what conditions would the cost of a desk be debited to the Furniture and Fixtures account?
3. W. H. Banks, owner of Bank's Drug Store, rented a typewriter on January 1 for one year at a rental of \$3.00 per month. What accounts would his bookkeeper debit and credit when the monthly rent was paid?
4. January 1 of the next year Mr. Banks purchased a new typewriter for \$100.00 cash, and on December 31 of the same year he sold it for \$75.00 cash. (a) What accounts would his bookkeeper debit and credit when the typewriter was purchased? (b) What accounts would his bookkeeper debit and credit when the typewriter was sold?
5. How much did Mr. Banks save by owning his own typewriter?

6. If he had not sold the typewriter December 31, should he have considered it still worth \$100.00?
7. If he wished to show that it had decreased in value, could you suggest a means of doing this?
8. Why should the credit to the Furniture and Fixtures account show cost and not selling price?
9. If a desk which has been purchased for sale is transferred from stock for use in the office, what accounts will be debited and credited?
10. Would an automobile truck used for delivering merchandise sold be regarded as one of the fixed assets of the business?
11. If the business buys a safe for \$400.00 and pays freight \$50.00, will the cost of the safe shown in the Furniture and Fixtures account be the cost of the safe at the factory or this cost plus the freight?
12. If fixtures belonging to the business are destroyed by fire, will the insurance be adjusted on the cost value of the same or the present value?
13. What is the legal rate of interest in your home state?
14. Does the law of your state permit the collection of a rate higher than the legal rate?
15. Explain the difference between interest and discount.
16. In what respect does the Interest Cost account resemble the Expense account as they both relate to the operations of the business?
17. When is interest a cost to the business?
18. When is interest an income to the business?
19. Why does the law limit the income from interest when it does not limit the income from the operations of a business?
20. If a customer owes the business \$500.00 which is due, and gives his note for this amount, due in ninety days, should he be required to pay interest? Why?
21. (a) What is the due date of a note dated May 9 and payable ninety days after date? (b) What is the due date of a note dated May 9 and payable three months after date?
22. Why is the interest on a note for \$169.27 for sixty days at 6%, \$1.69?
23. Explain the difference between current assets and fixed assets and the reason for this difference.
24. Explain the difference between the profit on merchandise sold in a mercantile business, and the profit resulting from interest earned.
25. What is the first thought of a bookkeeper when a business form representing a transaction is given to him? the second thought? the third? the fourth?

Part II—Partnership

Chapter XIII

THE PARTNERSHIP CONTRACT AND ACCOUNTS WITH PARTNERS

§ 110. **Introduction.** The purpose of the discussion in this division is to give the student further information in regard to the principles of accounting in connection with the recording of transactions, and practice through the exercises in applying these principles. Two practice sets, separate from the text, accompany this division. While the title of the division is "Partnership" and the business in each of the practice sets is conducted by partners, yet the principles discussed and illustrated may be applied to a business owned and operated by an individual. This chapter contains a discussion of the partnership and the accounts necessary to record the transactions with the partners.

§ 111. **Accounting** is the science which treats of the proper recording, classification, presentation, and interpretation of the financial facts relating to a business enterprise. Bookkeeping is that part of accounting which relates to the recording of business transactions. It is difficult to determine just where bookkeeping ends and accounting begins, because the transactions should be classified as they are recorded if the proper analysis is to be made from the reports prepared at the close of the fiscal period.

In the preceding chapters no attempt was made to consider the classification of transactions and the analysis of reports. Now that the student understands the method of recording transactions and preparing reports, he can better appreciate the reason for classification and analysis. A course in bookkeeping without a discussion of classification and analysis would not be fair to the student because he would be handicapped in his work as a bookkeeper, and as a manager of his own business he could not interpret the information which would come to him from the accounting department.

§ 112. **A Partnership** is the relation existing between two or more persons who have associated their time, labor, skill and capital in some business enterprise for their joint profit. The partners are the persons who have entered into the agreement to form a partnership.

§ 113. **The Purpose of Forming a Partnership** is the mutual benefit of all interested. The qualifications and natural ability of each person differ widely. One person seldom possesses all the essential requirements for an ideal business man; for this reason, the association of two or more partners is often very desirable. A mercantile business owned and operated by a shrewd buyer, a good salesman, and an efficient collector as partners will be sure of success if the three partners are congenial. While the necessary capital for conducting the business is usually the

chief incentive to the formation of a partnership, yet the natural ability and integrity of each partner should always be considered, especially if each is to take an active part in the management of the business.

James Brown operates a garage for storage. Robert Davis is salesman for a local automobile concern. Frank Jones is an expert auto repair mechanic. These three men form a partnership for the purpose of operating a garage, selling passenger cars, and conducting a repair shop. If the partners work together and there is no discord, the business should be a success.

§ 114. The Capital of a Partnership consists of (a) assets invested at the beginning of business, and (b) subsequent investments. The net assets of the partnership are the total assets less the liabilities; these net assets do not belong to any one partner, either as a whole or in part, but belong to all of them in common. The capital of a partnership is the same as the capital of a business owned by an individual, except that the net capital of the individual business belongs to the owner, while the net capital of the partnership belongs to the partners, but neither is permitted to withdraw his share without the consent of the others.

A. L. Day owns and operates a grocery business. He decides to discontinue the business and dispose of the assets at auction. After paying his liabilities, he can use the remainder of his assets in any way which he desires. O. L. Garber and C. N. Simpson operate a hardware business as partners. Mr. Garber wishes to retire, but Mr. Simpson does not want him to do so. If Mr. Garber insists upon retiring, he will be responsible to Mr. Simpson for any damage caused by his action. If the two partners cannot agree upon some plan of action, it will be necessary to ask a court of equity to appoint a receiver to sell the assets, pay the liabilities, and, after the liabilities are paid, divide the remainder of the assets between the partners.

§ 115. The Articles of Copartnership is the contract entered into between the partners at the beginning of the business and must conform to the laws of the state in which the partnership business is located. The agreement between the partners should be in writing and signed by each partner. It should contain the following information:

- (1) The date, and time the partnership is to continue.
- (2) The name of each partner and the firm name under which the business will be operated.
- (3) The amount invested by each partner.
- (4) The city and state in which the business is to be located.
- (5) The nature of the business.
- (6) The duties of each partner.
- (7) The compensation each partner is to receive for his services.
- (8) The division of the profits.
- (9) Any special conditions that may be agreed upon by the partners.

Illustration No. 69 shows the partnership agreement between C. W. Keeland and A. D. Munson, partners in a retail hay, grain, feed and coal business.

§ 116. The Relation Between the Partners is such that neither partner should take action in important cases without consulting the other partners. The individual owner of a business may operate the business without consulting any one as he alone is responsible for its operations, but each partner in a partnership is responsible to the other partners, hence should consult them even though, according to the agreement, it might not be necessary for him to do so. The success of a partnership can be assured only with the full cooperation of all the members, and this cooperation can be best effected when the partners are in accord on all business transactions of any importance.

No matter how well qualified the partners may be, unless their relations are agreeable the business cannot be a success. In the case of Garber and Simpson in the illustration under § 114, it is possible that each was well qualified to perform the duties under the Articles of Copartnership, but the fact that one of them wanted to sell might indicate that their relations were not satisfactory.

ARTICLES OF COPARTNERSHIP

This Contract, Made and entered into on the second day of April 19 by and between C. W. Keeland of Cincinnati, Ohio, party of the first part, and A. D. Munson of Cincinnati, Ohio, party of the second part,

WITNESSETH: That the said parties have this day formed a copartnership for the purpose of engaging in and conducting a retail hay, grain, feed and coal business under the following stipulations which are made a part of this contract:

FIRST: The said copartnership is to continue for a term of three years from date hereof.

SECOND: The business shall be conducted under the firm name of C. W. Keeland & Co.

THIRD: The investments are as follows: C. W. Keeland: assets as shown by the Balance Sheet of his business, prepared March 31; the partnership assumes the liabilities shown by this Balance Sheet.
A. D. Munson, cash, Five Thousand Dollars (\$5,000.00).

FOURTH: All profits or losses arising from said business are to be shared as follows: C. W. Keeland, one-half; A. D. Munson, one-half

FIFTH: A systematic record of all transactions is to be kept in a double entry set of books, which are to be open for the inspection of each partner. On the last day of June and Dec. hereafter a statement of the business is to be made, the books closed and each partner credited with the amount of the gain. A statement may be made at such other time as the partners agree upon.

SIXTH: Each partner is to devote his entire time and attention to the business and to engage in no other business enterprise without the written consent of the other.

SEVENTH: Each partner is to have a salary of \$ 200.00 per month, the same to be withdrawn at such time or times as he may elect. Neither partner is to withdraw from the business an amount in excess of his salary without the written consent of the other.

EIGHTH: The duties of each partner are defined as follows: C. W. Keeland is to have general supervision of the business and act as purchasing agent and credit man; A. D. Munson is to act as sales manager.

NINTH: Neither partner is to become surety or bondsman for anyone without the written consent of the other.

IN WITNESS WHEREOF, The parties aforesaid have hereunto set their hands and affixed their seals on the day and year above written.

C. W. Keeland
A. D. Munson

Illustration No. 69, Articles of Copartnership.

EXPLANATION. This contract is the partnership agreement between C. W. Keeland and A. D. Munson. It includes all the conditions mentioned in § 115 and a special condition in which the partners agree not to become surety for another during the term of the contract.

§ 117. Method of Forming a Partnership. A partnership is formed by the partners signing the Articles of Copartnership. Each partner is expected to invest the property mentioned in the agreement. One copy of the agreement should be kept on file in the office, and if desired, a synopsis of it may be made in the general journal. The business to be operated by the partners may be a continuation of a business which has been in operation by one or more of the partners, or it may be a new business. The capital of the partnership at the beginning consists of the property invested by the individual partners, less any liabilities that may be assumed.

§ 118. Admission of a Partner. A partner may be admitted into a going concern at any time, but it must be upon the agreement of all the partners. If the amount of his investment is not dependent on the present worth of the business, it is not necessary to prepare a Balance Sheet and a Statement of Profit and Loss nor to close the ledger. It is better to ascertain the present condition of the business, however, through these reports because the new partner will be better satisfied with his investment if he has full information in regard to the past operations of the business and its present financial condition. The admission of a partner cancels the copartnership agreement of the former partners and requires the preparation of new Articles of Copartnership to be signed by all the members.

§ 119. Retirement of a Partner. One or more of the members in a partnership may retire at any time upon consent of all the partners. One partner might retire without the consent of all the others, but such action would cause him to be responsible to the other partners for any loss resulting therefrom. When the value of the retiring partner's interest in the business can be determined without the preparation of the Balance Sheet and Statement of Profit and Loss, these reports are not necessary. Since the retirement of a partner cancels the Articles of Copartnership and requires a new agreement, it is customary to prepare the Balance Sheet and Statement of Profit and Loss and close the ledger so that the new agreement may begin a fiscal period.

§ 120. Income Tax for a Partnership. The income of each business operated as a partnership is subject to the Federal Income Tax; however, the tax is not paid by the partnership as such, but by the partners individually. Quoting from Section 218 of the Revenue Act of 1921, "Individuals carrying on a business in partnership shall be liable for income tax only in their individual capacity"; and quoting from Section 224 of the same act: "Every partnership shall make a return for each taxable year, stating specifically the items of its gross income and the deductions allowed by this title, and shall include in the return the names and addresses of the individuals who would be entitled to share in the net income if distributed and the amount of the distributive share of each individual. The return shall be sworn to by any one of the partners". See Appendix C.

§ 121. Accounts Peculiar to a Partnership. The accounts required to show the results of the operations of a partnership may be the same as those needed to show the results of the operations of a similar business owned by an individual except that a separate Capital account will be required for each partner. The nature of each of these Capital accounts will be the same as that of the one Capital account for a business owned and operated by a sole proprietor, as explained in § 34. Transactions affecting the compensation of partners as per the Articles of Copartnership and that part of the profit to be withdrawn should be recorded in an account separate from the one showing the investment and withdrawals from the investment. For this reason it is customary to have two accounts with each partner, a Capital account and a Personal or Drawing account.

PARTNER'S CAPITAL ACCOUNT

§ 122. The Purpose of this Account is to show the investments and withdrawals of the partner, also his share of the net loss or net profit resulting from the

operations of the business. The nature of the account is the same as that of the Capital account of an individual as explained in § 34.

Debit the Partner's Capital Account:

- ¶ 1. For debts owed by him at the beginning of business and assumed by the partnership.
- ¶ 2. For amounts withdrawn from the capital invested.
- ¶ 3. For his share of the net loss.

Credit the Partner's Capital Account:

- ¶ 4. For his investment at the beginning of the partnership.
- ¶ 5. For all subsequent investments.
- ¶ 6. For his share of the net profit which is to remain in the business.

¶ 7. *The Balance of the Partner's Capital Account* during the fiscal period shows his net investment, and, at the end of the fiscal period after the ledger is closed, his proprietorship in the partnership. The sum of the proprietorship of all the partners is the proprietorship or net capital of the partnership. The net investment of each partner is shown on the Balance Sheet (Illustration No. 92) in the same manner as the investment of an individual as explained in § 34.

PARTNER'S PERSONAL ACCOUNT

§ 123. **The Purpose of this Account** is to show a record of those transactions with the partner which do not affect his Capital account. These include withdrawals from salary or that part of the profit set aside for withdrawal; also special transactions, such as temporary loans to the partnership on open account, cash advanced to the partner for traveling expenses, etc.

Debit the Partner's Personal Account:

- ¶ 1. For cash paid him by the partnership for (a) salary as per Articles of Copartnership and (b) profit withdrawn.
- ¶ 2. For merchandise which he takes out of stock to apply on (a) salary or (b) profit withdrawn.
- ¶ 3. For cash paid to him to be used by him for the business.

Credit the Partner's Personal Account:

- ¶ 4. For his salary as per Articles of Copartnership.
- ¶ 5. For cash paid by him out of funds advanced to him (¶ 3) or paid out of his private funds in the interests of the business.
- ¶ 6. For that part of the profit which the partners have agreed may be withdrawn.

¶ 7. *The Balance of a Partner's Personal Account*, if a debit, shows the amount he owes the partnership for overdraft on account of salary or profits to be withdrawn; if a credit, the amount due him by the partnership on account of salary or profits to be withdrawn.

As a rule, the Personal account of each partner will be in balance at the close of the fiscal period. If, for any reason, a Personal account remains open, the balance, if a debit, is shown on the Balance Sheet as a deduction from the balance of his Capital account; if a credit, as an addition to the balance of his Capital account.

§ 124. **Opening Entries for a Partnership.** When a partnership has been formed by the partners signing the Articles of Copartnership, the cash or other assets invested by each partner become the property of the partnership, and should be recorded as such in the books of account; each asset invested is recorded on the debit side of an account and each partner's investment is recorded on the credit side of his Capital account. When the partnership is formed to continue the operation of a going business or to combine one or more going businesses, it is customary for the partnership to assume the liabilities of the business or businesses to be operated by it. This means that the sole proprietor or partners who own the going business will be credited for the value of the assets belonging to the business and debited for the liabilities which the partnership assumes.

October 1 James Brown and Robert Duncan form a partnership for the purpose of operating a retail grocery business which has been owned and operated by James Brown as a sole proprietor. It is agreed that James Brown is to have credit for the value of his assets as shown by the Balance Sheet, and is to be debited with the liabilities shown by the same report. Robert Duncan is to invest \$2,000.00 in cash. The value of the assets belonging to James Brown are as follows: cash, \$1,200.00; merchandise, \$1,356.50; accounts receivable, \$935.60; notes receivable, \$300.00. The liabilities are accounts payable, \$1,345.90, and notes payable, \$1,000.00. The cash invested by Brown and Duncan would be entered on the

receipts side of the cash book in the same form as the cash investment shown by the first entry in the cash book for the Model Set (Chapter VI). The other assets invested by James Brown and his liabilities assumed would be recorded in the general journal as in the illustration above. If desired, this entry might be preceded by a synopsis of the partnership agreement as explained in § 117.

October 1, 1912

Notes Receivable	300		
Accounts Receivable	935.60		
Merchandise Inventory	1356.50		
James Brown, Capital		2592.10	
To record assets other than cash invested by James Brown			
James Brown, Capital	2545.90		
Notes Payable		1000	
Accounts Payable		1345.90	
To record liabilities of James Brown assumed by partnership			

§ 125. Entries for the Admission or Withdrawal of a Partner. When a partner is admitted, the entry for the assets invested by him is the same as the entry for the investment of a partner at the beginning of a business. Thus, if the new partner invests cash, the entry will be made on the receipts side of the cash book; if he invests merchandise, notes, personal accounts, or other assets, the entry will be made in the general journal. If the partnership assumes debts owed by the new partner, his Capital account will be debited with these in the same manner as if the liabilities were assumed at the beginning of a business.

When a partner withdraws from the business, it is necessary to close his Capital account by debiting it and crediting Cash or the account which shows the asset accepted by the retiring partner in settlement for his interest in the business. If the partnership does not pay the retiring partner the full amount agreed upon, the balance due him is a liability. If this balance owed the retiring partner is evidenced by a written agreement, it will be recorded in the Notes Payable account; if by a verbal agreement, it will be recorded as an account payable. If the amount which the retiring partner accepts for his interest in the business does not balance his Capital account, this account should be closed into a special account, the balance of which will represent the profit or loss to the partnership because of the withdrawal.

Exercise No. 56, Articles of Copartnership and Opening Entry.

W. L. Westbrook owns and operates a garage for the purpose of storing cars. He wishes to add a repair department and to act as selling agent for passenger cars. In order that he may secure the needed capital and assistance in the operations of the business, he forms a partnership, on January 1, with W. W. Woodward, an experienced salesman, and C. H. Armstrong, an expert mechanic. The partnership is to continue for three years, and the business is to be operated under the name of the Central Garage.

W. L. Westbrook invests the building in which the garage is operated, valued at \$4,500.00; the lot on which the building is located, \$1,500.00; accounts receivable due from those who have space rented in the garage, \$753.50; and cash, \$500.00. He owes the Citizen's Bank and Trust Company a note for \$2,500.00, which the partnership assumes.

W. W. Woodward invests a demonstration car which he owns, valued at \$1,500.00; two new cars which he has purchased for sale, valued at \$1,750.00 each; a note for \$530.50, signed by A. W. Miller; and cash, \$1,223.00. He owes the First National Bank a note for \$2,000.00 which the partnership assumes.

C. H. Armstrong invests machinery and tools, valued at \$2,500.00, which he has been using in a shop operated by himself; and cash, \$1,000.00. He owes L. I. Milford an account of \$500.00 which the partnership assumes.

Mr. Westbrook will have charge of the office and the general operations of the business; Mr. Woodward will devote his time to the sales of automobiles; and Mr. Armstrong will have charge of the repair department. Each partner is to receive a salary of \$200.00 per month. The profits are to be divided as follows: Mr. Westbrook and Mr. Woodward, each three-eighths; Mr. Armstrong, one-fourth. No partner is to become surety for any one during the time of the partnership, nor engage in any other business.

Prepare (1) the Articles of Copartnership and (2) the opening entries in the journal (including a synopsis of the agreement) and cash book, for the assets and liabilities invested by each partner. The value of the building is to be recorded in a Building account, and that of the lot, in a Land account; the student will select titles for the accounts to record the other assets and the liabilities (§ 4).

Exercise No. 57, Admission of a Partner, and Transfer of Net Profit to Partners' Capital Accounts.

First Division. July 1 Robert MacFarland, one of the salesmen employed by the Central Garage (Exercise No. 56), wishes to purchase an interest in the business and the three partners agree to sell him a one-fourth interest for \$3,000.00 payable \$1,000.00 cash; one Liberty bond, accepted at par value, \$1,000.00; and his note, due in six months, for \$1,000.00. The assets invested by him become the partnership property. It is agreed that each partner will share equally in the profits of the partnership from July 1, but that the books will not be closed until the end of the business year. All the partners agree to the other conditions in the original Articles of Copartnership.

Prepare (1) the entry for the assets invested by Robert MacFarland, and (2) show the changes that will be necessary in preparing new Articles of Copartnership.

Second Division. December 31 the Statement of Profit and Loss prepared by the bookkeeper for the Central Garage shows the net profit for the year to be \$2,495.75. Make the general journal entry to credit each partner's Capital account for his share of the profit, taking into consideration the agreement made with Robert MacFarland July 1. The student may assume that this net profit stands as a credit to the Profit and Loss account, and that one half of the profit is applicable to the first half of the year and the remainder to the latter half.

Exercise No. 58, Opening Entry, and Transfer of Net Profit to Partners' Capital and Personal Accounts.

First Division. H. W. Meyer owns and operates a gasoline station at 3275 Grandview Avenue. James C. Dexter owns and operates a gasoline station at 716 Cooper Street of the same city. A. L. Burwell is a salesman for the Moore Oil and Refining Co. These three men agree to form a partnership for the purpose of continuing the operations of the two gasoline stations and establishing a new station at 4721 Poplar Street. The partnership is to continue for a period of two years from October 1. The business is to be conducted under the name of "The Merchants Oil and Gas Co." The investment of each partner is as follows:

H. W. Meyer invests gasoline in stock, \$216.50; oil in stock, \$175.95; equipment, \$1,600.00; notes receivable, \$200.00; accounts receivable, \$309.50; cash, \$1,000.00; building, \$2,500.00; lot, \$1,500.00. He owes notes payable, \$1,500.00; accounts payable, \$375.50.

James C. Dexter invests gasoline in stock, \$1,459.20; oil in stock, \$1,298.65; cash, \$835.50; rent paid in advance, \$200.00; accounts receivable, \$1,630.25; and notes receivable, \$984.40. He owes a note payable, \$562.50.

A. L. Burwell invests gasoline, \$450.00; oil, \$322.20; and cash \$5,000.00. He owes an account payable, \$250.00.

Mr. Meyer is to have charge of one oil station and supervise the buying; Mr. Dexter is to have charge of the other oil station and keep the books of account; Mr. Burwell is to have charge of the new oil station and supervise the selling. Each partner is to receive a salary of \$250.00 per month; profits are to be divided equally. Each partner agrees not to engage in any other line of business.

The student is required to make the opening entry in the general journal, showing a synopsis of the Articles of Copartnership.

Second Division. September 30 of the following year, the Statement of Profit and Loss shows a profit of \$6,387.68. It is agreed that each partner's Capital account shall be credited with \$1,500.00 of this profit and each partner's Personal account credited with the remainder of his share of the profit. The amount credited to the Personal accounts may be withdrawn within ninety days, but not more than one-third is to be withdrawn within any one month.

The student is required to show in journal form the entry necessary to transfer the net profit from the Profit and Loss account to the Partners' Capital and Personal accounts; also the entry October 31, when each partner withdraws one-third of the profit credited to his Personal account.

QUESTIONS

1. Explain the distinction between bookkeeping and accounting.
2. Would you consider it advisable to enter into a partnership agreement with an individual who had an undesirable reputation? Why?
3. Name three local business concerns which are conducted as partnerships.
4. Name the essential elements of the Articles of Copartnership and state the reasons why the partnership agreement should be in writing.
5. If one partner should sell the entire stock of goods for cash without the consent of the other partners, and deposit the cash in the bank in the name of the partnership, could the other partners rescind the sale?
6. If a partner whose capital account shows a balance of \$9,600.00, sells his interest in the partnership to the other partners for \$9,000.00 cash, what entry is required to record the transaction on the books of the partnership?
7. Why does the Federal Government require each partnership and each partner to submit a separate income tax return?
8. (a) Why is an account debited with each asset invested by a partner?
(b) Why is the partner's Capital account credited?
9. Why is it advisable to keep two accounts with each partner?
10. If a note invested by one of the partners proves worthless, what account should be debited? If the partner had guaranteed payment, would this change the account debited?

Chapter XIV

ACCOUNTS WITH FIXED ASSETS

The Purpose of this Chapter is to explain the accounts necessary to record the value of the various fixed assets usually needed in connection with the operations of a mercantile business, and also to show the method of recording the depreciation on each group. It is necessary to have a separate account with each group of fixed assets because the loss resulting from the use of these assets affects different operating costs.

§ 126. **Fixed Assets** consist of property purchased for use in the business which will not be entirely consumed by its use (§ 99). This property may be the building in which the business is operated, fixtures in connection therewith, automobile trucks or horses and wagons for delivering goods, store fixtures, etc. The nature and use of a fixed asset will determine the account in which its value should be recorded. The accounts necessary to record the fixed assets usually owned by a mercantile business are Office Equipment, Store Fixtures, Delivery Equipment, Buildings, and Land.

It is necessary to keep two accounts with each group of fixed assets, one to show the cost of the assets and the other to show the decrease in value on account of use and lapse of time. The debit side of a fixed asset account should show cost and the credit side cost so that the balance will show cost (§ 99). If any other value than cost is recorded on the credit side of a fixed asset account, the balance will mean nothing to the management when adjusting fire losses or determining the amount of decrease in the value of the property. The necessity for keeping two accounts with each group of assets requires an explanation of depreciation.

§ 127. **Depreciation** refers to the decrease in the value of fixed assets through their use in connection with the operation of the business and the lapse of time. A typewriter purchased for \$100.00 on January 1 and used throughout the year will not be worth \$100.00 at the end of the year. An automobile truck purchased for \$2,000.00 on January 1 and used throughout the year for delivering merchandise will not be worth \$2,000.00 at the end of the year. A building purchased for \$5,000.00 on January 1 and used as a home for the business throughout the year will not be worth \$5,000.00 at the close of the year.

It is customary to record the depreciation in value of fixed assets at the close of each fiscal period. The amount of the decrease will depend largely on the nature of the asset and its use. If it is estimated that the time of usefulness of a fixed asset is ten years, one tenth of its cost value is recorded as the depreciation; if five years, one fifth; if twenty years, one twentieth, etc. Other methods of ascertaining the amount of depreciation are discussed in a subsequent chapter.

In all cases the amount of depreciation recorded will be based on estimate only. There is no means of knowing the exact amount of the depreciation. The policy should be to depreciate the fixed assets, however, so that the difference between the account which shows the cost value of the asset and the account which shows the estimated depreciation will show the approximate present value of the property. If furniture and fixtures which cost \$4,000.00 are destroyed by fire, the adjustment will be made on the present value of these fixtures. If the account with Furniture and Fixtures shows the cost value \$4,000.00 and the account with

depreciation shows the estimated decrease \$1,000.00, the insurance adjuster will have a basis (present value \$3,000.00) on which to adjust the fire loss.

Depreciation on fixed assets is an operating cost and is recorded as such at the close of each fiscal period. The nature of the asset and its use in connection with the operations of the business will determine the expense account affected. This is explained further in Chapter XVI. When the depreciation is recorded, an expense account is debited and a reserve account credited; the title of the reserve account is the same as that of the account which shows the cost value of the asset, preceded by the words "Reserve for Depreciation of".

The taxpayer must show on his income tax return the amount of depreciation for the fiscal period reported. If the depreciation is recorded in various operating expense accounts it is necessary to refer to the general journal or to all the operating accounts affected to ascertain the total depreciation for the fiscal period. If desired, an account with Depreciation may be debited for all depreciation recorded at the close of a period and the balance of this account regarded as an operating expense. The better plan is to record the depreciation in the expense accounts affected and thus provide full information regarding each department of expense. Depreciation on a delivery truck is a delivery cost and unless so recorded, the cost of delivering merchandise sold will not be reported to the owner.

OFFICE EQUIPMENT ACCOUNT

§ 128. **The Purpose of this Account** is to show the cost of the property purchased for use in the office, which includes desks, chairs, typewriters, safes, files, bookcases, tables, etc.

Debit the Office Equipment Account:

- ¶ 1. For the invested value of office equipment on hand at the beginning of the business, and for the cost value of office equipment purchased.

Credit the Office Equipment Account:

- ¶ 2. For the cost value of office equipment sold, exchanged, stolen, destroyed, or discarded.

¶ 3. *The Balance of the Office Equipment Account* shows the cost value of the office equipment owned by the business. It is shown as a fixed asset on the Balance Sheet (Illustration No. 92).

RESERVE FOR DEPRECIATION OF OFFICE EQUIPMENT ACCOUNT

§ 129. **The Purpose of this Account** is to show the estimated amount of depreciation on office equipment. This depreciation is usually five or ten per cent of the cost of office equipment, depending on the nature of the equipment: it is quite evident that a typewriter will depreciate more rapidly than a safe or a desk.

Debit the Reserve for Depreciation of Office Equipment Account:

- ¶ 1. For the cost value of office equipment discarded or destroyed.*
 ¶ 2. For the depreciation applicable to office equipment sold or exchanged.

Credit the Reserve for Depreciation of Office Equipment Account:

- ¶ 3. At the close of each fiscal period, for the estimated amount of depreciation on account of the use of office equipment during the period.

¶ 4. *The Balance of the Reserve for Depreciation of Office Equipment Account* shows the reserve set aside for the depreciation of office equipment, the cost value of which is debited to the Office Equipment account. The cost value of office

*It is assumed that the reserve for depreciation on the equipment discarded or destroyed approximately equals its cost value; if this is not the case, the debit to the reserve account will be for the depreciation only, the balance being debited to a non-operating expense account with an appropriate title.

equipment (balance of the Office Equipment account) is shown as a fixed asset on the Balance Sheet and the depreciation (balance of the Reserve for Depreciation of Office Equipment account) is shown as a deduction from this amount (Ill. No. 92).

The reserve account should always show a credit balance. If at any time the debits are approximately the same as the credits, it is evidence that an error is being made by setting up a reserve too small or by debiting this account with more than the depreciated value of office equipment discarded, stolen, or destroyed. When errors of this kind occur, they are corrected by an entry in the general journal to record the additional depreciation or to adjust the amounts debited to the account. The entry to record the additional depreciation affects the same accounts as the entry required to record the depreciation at the end of the fiscal period; the entry to adjust the debits transfers the amount adjusted to an expense account or to a special loss account.

¶ 5. *Entry to Record Depreciation of Office Equipment.* At the close of each fiscal period an entry is made in the general journal to record the estimated depreciation of office equipment. The Administrative Expense account is debited and the Reserve for Depreciation of Office Equipment account credited. If the cost of office equipment owned by the business, as shown by the balance of the Office Equipment account, is \$500.00, and the estimated depreciation is five per cent, the entry in journal form will appear as in the illustration below.

December 31, 192

<i>Administrative Expense</i> <i>Res. for Dep. of Office Equip.</i> <i>Five per cent depreciation on cost</i> <i>of office equipment.</i>	25		25	
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The use of the office equipment will determine the expense account to be debited for the depreciation. Unless there are a number of departments in the office, the depreciation may be regarded as an administrative cost (Chapter XVI).

STORE FIXTURES ACCOUNT

§ 130. **The Purpose of this Account** is to show the cost of property purchased for use in the storeroom, which includes shelving, show cases, scales, trucks, etc. The nature of this account is the same as that of the Office Equipment account and the various debits and credits are similar. If desired, the cost of office equipment and store fixtures may be recorded in one account under the caption "Office Furniture and Store Fixtures" or "Furniture and Fixtures" (§ 100).

Debit the Store Fixtures Account:

Credit the Store Fixtures Account:

¶ 1. For the invested value of store fixtures on hand at the beginning of the business, and for the cost value of store fixtures purchased.

¶ 2. For the cost value of store fixtures sold, exchanged, stolen, destroyed, or discarded.

¶ 3. *The Balance of the Store Fixtures Account* shows the cost value of the store fixtures owned by the business. It is shown as a fixed asset on the Balance Sheet (Illustration No. 92).

RESERVE FOR DEPRECIATION OF STORE FIXTURES ACCOUNT

§ 131. **The Purpose of this Account** is to show the net amount of the reserve set aside to take care of the estimated depreciation of store fixtures. This depreciation is usually from three to ten per cent of the cost of the fixtures, depend-

ing on the nature of the property. The debits and credits are the same as those given in § 129 except that they apply to store fixtures. The balance of the Reserve for Depreciation of Store Fixtures account shows the net amount of the reserve set aside for the depreciation of the store fixtures. The cost value of store fixtures (balance of the Store Fixtures account) is shown as a fixed asset on the Balance Sheet and the depreciation (balance of the Reserve for Depreciation of Store Fixtures account) is shown as a deduction from this amount (Ill. No. 92).

¶ 1. *Entry to Record Depreciation of Store Fixtures.* At the close of each fiscal period an entry is made in the general journal to record the estimated depreciation of store fixtures. The Selling Expense account is debited and the Reserve for Depreciation of Store Fixtures account credited. If the cost of store fixtures owned by the business, as shown by balance of the Store Fixtures account, is \$600.00, and the estimated depreciation is four per cent, the entry in journal form will appear as in the illustration below.

December 31, 192

<i>Selling Expense</i> <i>Res. for Dep. of Store Fixtures</i> <i>Four per cent depreciation on cost</i> <i>of store fixtures</i>	24	24
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The use of store fixtures will determine the operating account affected by the depreciation. Unless there are a number of departments in which the store fixtures are used, their decrease in value on account of depreciation may be regarded as a selling cost (Chapter XVI).

DELIVERY EQUIPMENT ACCOUNT

§ 132. **The Purpose of this Account** is to show the cost of property purchased for use in delivering merchandise sold, which includes teams, wagons, harness, automobiles, or any other conveyances used by the business in delivering merchandise to customers. The nature of the account is the same as that of the Office Equipment account, and the various debits and credits are similar.

Debit the Delivery Equipment Account:

- ¶ 1. For the invested value of delivery equipment on hand at the beginning of the business, and for the cost value of delivery equipment purchased.

Credit the Delivery Equipment Account:

- ¶ 2. For the cost value of delivery equipment sold, exchanged, stolen, destroyed, or discarded.

¶ 3. *The Balance of the Delivery Equipment Account* shows the cost value of the delivery equipment owned by the business. It is shown as a fixed asset on the Balance Sheet (Illustration No. 92).

RESERVE FOR DEPRECIATION OF DELIVERY EQUIPMENT ACCOUNT

§ 133. **The Purpose of this Account** is to show the net amount of the reserve set aside to take care of the depreciation of delivery equipment. This depreciation is usually from ten to twenty per cent of the cost of delivery equipment, depending on the nature of the equipment. The debits and credits are the same as those given in § 129 except that they apply to delivery equipment. The balance of the Reserve for Depreciation of Delivery Equipment account shows the

net amount of the reserve set aside for the depreciation of delivery equipment. The cost value of delivery equipment (balance of the Delivery Equipment account) is shown as a fixed asset on the Balance Sheet and the depreciation (balance of the Reserve for Depreciation of Delivery Equipment account) is shown as a deduction from this amount (Illustration No. 92).

¶ 1. *Entry to Record Depreciation of Delivery Equipment.* At the close of each fiscal period an entry is made in the general journal to record the estimated depreciation of delivery equipment. The Selling Expense account is debited and the Reserve for Depreciation of Delivery Equipment account credited. If the cost of the delivery equipment owned by the business, as shown by the balance of the Delivery Equipment account, is \$1,850.00 and the estimated depreciation is ten per cent, the entry in the journal form will appear as in the illustration below.

December 31, 1922

<i>Selling Expense</i> <i>Res for Dep. of Delivery Equip.</i> <i>Ten percent depreciation on cost</i> <i>of delivery equipment</i>	185		185
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If the cost of delivering merchandise sold to customers is recorded in a special account with Delivery Expense (Chapter XVI), this account would be debited for the depreciation.

LAND ACCOUNT

§ 134. **The Purpose of this Account** is to show the cost of land owned by the business, on which is located the buildings in which the business is conducted or on which buildings are to be constructed. When real estate is purchased, a separate value should be placed on the land and the buildings.

Debit the Land Account:

¶ 1. For the invested value of the land owned by the business at the beginning of the business, and for the cost of land purchased during the operations of the business.

Credit the Land Account:

¶ 2. For the cost of any part or all of the land sold.

¶ 3. *The Balance of the Land Account* shows the cost value of the land owned by the business, on which the home of the business is located or on which buildings will be constructed for use in connection with the operations of the business. It is shown on the Balance Sheet as one of the fixed assets of the business (Ill. No. 92).

The cost of land purchased by the business includes the purchase price of the land plus the cost of securing the title. Improvements of a permanent nature, such as sidewalks, grading, streets, etc., should be regarded as part of the cost of the land and debited to the Land account. Taxes and expenses in connection with the upkeep of the land are not a part of its cost, and should be recorded in an account which shows operating expense. If an account is kept with Building Expense, the taxes and cost of the upkeep of the land may be debited to this account. No depreciation account is necessary in connection with land because land does not depreciate on account of use.

BUILDINGS ACCOUNT

§ 135. **The Purpose of this Account** is to show the cost of the buildings owned by the business as a home. In the larger cities buildings are sometimes

owned as a home for the business without the business holding title to the land, but as a rule, the buildings and land are both owned by the business.

Debit the Buildings Account:

- ¶ 1. For the invested value of buildings owned at the beginning of the business, for the cost of buildings erected on land owned by the business, and for permanent improvements which add to the value of the buildings.

Credit the Buildings Account:

- ¶ 2. For the cost price of buildings sold, razed, or destroyed.

¶ 3. *The Balance of the Buildings Account* shows the cost value of the building or buildings used as a home for the business. It is shown on the Balance Sheet as one of the fixed assets (Illustration No. 92).

The cost of maintaining the building is one of the operating costs of the business and should be recorded in an account which shows operating cost. The cost of maintaining the buildings includes repairs and the other expense incident to keeping the building in first-class condition. Repairs of such a nature that they increase the value of the building should be regarded as a part of the cost of the building and debited to the Buildings account. The replacing of a shingle roof with the same kind of material would be one of the expenses incident to keeping the building in good order; the replacing of the shingle roof with a slate or tile roof would increase the value of the building, hence should be regarded as an increase in the amount of capital invested in the asset.

RESERVE FOR DEPRECIATION OF BUILDINGS ACCOUNT

§ 136. **The Purpose of this Account** is to show the net amount of the reserve set aside to take care of the depreciation of buildings. The yearly depreciation is usually from two to five per cent of the cost of the buildings, depending on the nature of the construction. The debits and credits are the same as those given in § 129, except that they apply to buildings. The balance of the Reserve for Depreciation of Buildings account shows the net amount of the reserve set aside for the depreciation of buildings. The cost value of buildings (balance of the Buildings account) is shown as a fixed asset on the Balance Sheet and the depreciation (balance of the Reserve for Depreciation of Buildings account) is shown as a deduction from this amount (Illustration No. 92).

¶ 1. *Entry to Record Depreciation of Buildings.* At the close of each fiscal period an entry is made in the general journal to record the estimated depreciation of buildings. The Administrative Expense account is debited and the Reserve for Depreciation of Buildings account credited; if an account with Building Expense (§ 156) is maintained, this account is debited instead of Administrative Expense. If the cost of the buildings owned by the business, as shown by the balance of the Buildings account, is \$5,000.00, and the estimated depreciation is one per cent, the entry in journal form will appear as in the illustration below.

December 31, 1927

	Administrative Expense Res. for Dep of Buildings One per cent depreciation on cost of buildings.	50		50
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The use of the building will determine the operating expense account affected by the depreciation. Unless a number of departments are maintained, the depreciation may be regarded as a rent cost, hence a debit to Administrative Expense.

Exercise No. 59, Recording Transactions with Fixed Assets and Depreciation.

A truck was purchased January 1, 1919, for \$2,000.00 cash. At the close of each year, fifteen per cent was allowed for the depreciation during the year. What is the book value of the truck December 31, 1921? Show (a) the entry in journal form required to record the purchase of the truck, (b) the entry required at the close of each year to record the estimated depreciation, and (c) the posting of these entries to the proper accounts; also show (d) the entry in journal form required to record the purchase of a new truck January 10, 1922, for \$3,000.00, cash \$1,900.00, exchange value of the old truck, \$1,100.00, and (e) the posting of this entry to the ledger accounts.

Exercise No. 60, Recording Transactions with Fixed Assets, Depreciation and Fire Loss.

The following office equipment was purchased January 1, 1917: safe, \$200.00; bookkeeper's desk, \$75.00; stool, \$5.00; typewriter desk, \$60.00; typewriter, \$100.00; chair, \$9.50; roller top desk, \$90.00; chair, \$12.50; filing cabinet, \$65.00; adding machine, \$350.00. The safe was purchased from the Hall Safe and Lock Co., terms one-half cash and one-half sixty-day note without interest. The adding machine was purchased from the Dalton Adding Machine Co., for cash, \$250.00, and two notes for \$50.00 each, due in six and twelve months without interest. Cash was paid for the desks, chairs, typewriter and filing cabinet.

At the close of each year, up to and including December 31, 1921, this equipment was depreciated as follows: desks, 5%; chairs, 10%; typewriter, 12½%; adding machine, 10%; files, 5%; safe, 4%.

All equipment, except the safe, was damaged by fire Jan. 17, 1922. The insurance adjuster settled by paying fifty per cent of the book value Jan. 1, 1922 and allowing the owner to retain the equipment. Jan. 22 the typewriter was exchanged for a new one, price \$100.00, with an exchange allowance of \$25.00, cash being paid for the difference. The adding machine was exchanged for a new one, price \$350.00, with an allowance of \$100.00 and cash paid for the difference. The desks, chairs, and files were sold to a junk dealer for \$50.00. New desks, chairs and files were purchased January 23 for cash at the same price as the old ones.

The student is required to show (a) the entry in journal form for the furniture when it was purchased, (b) the entry in journal form for the depreciation at the close of each year, and (c) the posting of these entries to the proper accounts; (d) the entry in journal form for the fire adjustment, and (e) the posting of this entry to the proper accounts; (f) the entry in journal form for the purchase of the new typewriter and adding machine, (g) the entry for the sale of the desks, chairs, and files, (h) the entry for the purchase of the new desks, chairs, and files, and (i) the posting of these entries to the proper accounts.

When equipment is sold or exchanged, the actual depreciation only should be debited to the Reserve for Depreciation account. The difference between the present book value of the equipment (cost less depreciation) and its exchange or selling price is the amount of the loss on account of the fire and should be debited to an account with "Fire Loss". The amount received from the insurance adjuster reduces this loss, hence should be credited to the Fire Loss account. When these entries have been made and posted, the Office Equipment account will show the cost of office equipment owned by the business, the Reserve for Depreciation account will show the depreciation on the safe, and the Fire Loss account will show the net loss on account of the fire. (See note at the bottom of page 148.)

Exercise No. 61, Recording Transactions with Fixed Assets and Depreciation, Adjustment of Fire Loss, and Report to the Owner.

The facts recorded in the ledger accounts on page 154 show the Office Equipment and Reserve for Depreciation of Office Equipment accounts on December 10, 1922, at which time the equipment was partially destroyed by fire; the books of account, which were in the safe, were not damaged. On December 15 the insurance company settled by paying cash for sixty per cent of the book value of the

equipment at the time of the fire and allowing the owner to retain the fixtures. December 18, the owner sold the equipment to a junk dealer for \$50.00.

The student is required to show (a) the entries in journal form for the equipment when purchased, assuming that cash was paid for all equipment, except typewriter No. 2, at the time of purchase; (b) the entry in journal form for the depreciation, December 31, 1921; (c) the entry in journal form for the exchange of typewriter No. 1 for typewriter No. 2, assuming that the exchange value of the former was \$90.00 and that cash was paid for the difference; (d) the entry in journal form for the adjustment of the insurance company assuming that 5% depreciation is allowed from January 1, 1922, to the date of the fire; (e) the entry in journal form for the sale of the equipment; (f) a statement to the owner showing his loss on office equipment on account of the fire.

The student will observe that the equipment is described in the explanation column of the ledger account. When typewriter No. 1 is exchanged, the new typewriter is shown as No. 2 instead of No. 1. Equipment should always be numbered when purchased and the number attached to it by tag or tack; it should be known by this number through the description in the explanation column of the account or in a special inventory book.

Office Equipment

1921				1922			
Jan	3	Safe	\$1 250	Feb.	1	Typewr No. 1	\$32 100
	3	Desk No. 1	\$1 85				
	3	Chairs Nos. 1-3	\$1 30				
	3	Typewr No. 1	\$1 100				
Feb.	4	Tiles	C5 35				
Jan.	9	Desk No. 2	C27 55				
Feb.	1	Typewr No. 2	\$32 125				

Reserve for Depreciation of Office Equipment

1922				1921			
Feb.	1	Typewr No. 1	\$32 10	Dec.	31	5%	\$29 25

QUESTIONS

1. Why is it necessary to have two accounts with each group of fixed assets?
2. What amount will the insurance adjuster use as a basis for adjusting a fire loss on a truck, cost \$4,000.00, reserve for depreciation \$1,500.00?
3. Why should the cost value of delivery equipment be recorded in an account separate from that in which the cost value of office equipment is shown?
4. Under what conditions would the depreciation on buildings be regarded as a selling expense?
5. Why is it necessary to show the cost value of buildings in one account and the cost value of land in another?
6. Under what conditions would the depreciation on office equipment be regarded as a buying expense?
7. Why does the Federal Government limit the amount of depreciation?
8. Would the percentage of depreciation on a brick building be greater or less than that on a frame building? Why?
9. When is the cost of repairs on a building debited (a) to the Building account? (b) to Administrative Expense? (c) to Building Expense?
10. Under what conditions might a Reserve for Depreciation account show a debit balance?

Chapter XV

OPERATING AND NON-OPERATING INCOME

The Purpose of this Chapter is to explain the accounts needed to record the principal income and the special income of the business during the fiscal period; an income to a business is the profit made through the operations of the business. The owner should know the amount of the principal income separate from special income in order that he may better control future operations of his business.

§ 137. **Every Business** is organized for the specific purpose of making a profit. This profit may result (a) from the sale of merchandise purchased, (b) from the sale of merchandise manufactured, or (c) from the sale of services. The profit resulting from the sale of merchandise or services is usually referred to as the operating income of the business. Other profits which result from the operation of the business are usually referred to as non-operating income. Non-operating income includes interest earned, discount on merchandise purchased, profit on sales of real estate, and other profits of this nature which may or may not occur during each fiscal period.

The operating income of a mercantile business is the profit resulting from selling merchandise; a newspaper publishing business, the sale of advertising and subscriptions; a street railway, the sale of transportation; a telephone company, the sale of telephone service. The non-operating income in all of these businesses may be the same; that is, the merchant, the publisher, the street railway, and the telephone company may each earn interest on notes, make a profit through discounting its bills, or sell at a profit real estate purchased for use in the business. The owner of the business will base the future operations of his business on the operating income because this will occur in each fiscal period, while non-operating income may occur only occasionally.

§ 138. **Accounts with Merchandise.** The operating income of a mercantile business results from the sale of merchandise which has been purchased for sale. As explained in §§ 17 and 18, the cost of merchandise purchased may be recorded in one account with Purchases, and the sales of this merchandise in one account with Sales. When this plan is followed, the Purchases account is debited with the invoice, freight and drayage cost, and credited with returns and allowances; the Sales account is credited with the sales, and debited with returns and allowances. Where the operations of the business are not extensive, the information obtained from the Purchases and Sales accounts will be all that the owner needs; but where the amounts involved in connection with freight costs, returns, and allowances are large, he will want to know the amount of each item separate from the invoice cost of merchandise and the returns from sales. When this information is needed, the invoice cost is recorded in the Purchases account, sales in the Sales account, the freight and drayage cost in a separate account, and returns and allowances both on account of purchases and sales each in separate accounts.

The discussion of accounts with Purchases, Freight In, Purchases Returns, Purchases Allowances, Inventory, Sales, Sales Returns, and Sales Allowances, which follows, relates to the merchandise accounts necessary to give the management detailed information in regard to the cost of the merchandise sold and the returns from sales.

If desired, one account may be kept with Merchandise which will show all the facts relating to its purchase and sale. If this is done, however, it causes returned sales to be recorded as if they were purchases and returned purchases to be recorded as if they were sales, which is incorrect. It also requires the cost price to appear on the debit side and the sale price on the credit side of the same account, which is contrary to the accounting principle that equal values should appear on each side of the same account, as in Cash and in Accounts Receivable.

PURCHASES ACCOUNT

§ 139. **The Purpose of this Account** is to show the net invoice cost of merchandise purchased. When the account is kept for this purpose, returns, allowances, and freight and drayage cost are recorded in separate accounts. The owner of the business needs to know the invoice cost of the merchandise purchased in order to compare the purchases of the current period with those of preceding periods, and for use as a guide in making future purchases.

Debit the Purchases Account:

- ¶ 1. For the invoice cost of merchandise purchased.

Credit the Purchases Account:

- ¶ 2. For adjustments which reduce the invoice cost of merchandise purchased as shown by the debit side.

¶ 3. *The Balance of the Purchases Account* shows the net invoice cost of merchandise purchased during the fiscal period. It is shown on the Statement of Profit and Loss as one of the costs of the merchandise sold (Ill. No. 93).

PURCHASES RETURNS ACCOUNT

§ 140. **The Purpose of this Account** is to show the net value of merchandise purchased and later returned to the concern from which it was purchased. It is quite evident that merchandise purchased would not be returned unless it were unsatisfactory; if the amount of the returns is unusually large, the management will know that it is advisable to place orders with other concerns which will deliver the grade and quality of goods desired.

Debit the Purchases Returns Account:

- ¶ 1. For any adjustments which reduce the amount of merchandise returned as shown by the credit side.

Credit the Purchases Returns Account:

- ¶ 2. For the invoice cost of merchandise returned to the seller by the business.

¶ 3. *The Balance of the Purchases Returns Account* shows the net amount of purchases returned to the seller. It is shown on the Statement of Profit and Loss as a deduction from the net invoice cost of purchases (balance of the Purchases account) to ascertain the net purchases (Illustration No. 93).

PURCHASES ALLOWANCES ACCOUNT

§ 141. **The Purpose of this Account** is to show the net amount of allowances granted to the business on account of merchandise purchased being received in damaged condition or not according to sample. If the amount is unusually large, it is quite evident that it will not be good policy for the business to continue to buy merchandise from those who must be continually making allowances because the merchandise is carelessly packed or otherwise not according to specifications. If desired, purchases allowances may be combined with purchases returns and recorded in an account with Purchases Returns and Allowances because they are both deductions from the invoice cost.

Debit the Purchases Allowances Account:

- ¶ 1. For any adjustments which reduce the amount of allowances granted to the business as shown by the credit side.

Credit the Purchases Allowances Account:

- ¶ 2. For the amount of allowances granted to the business by its creditors.

¶ 3. *The Balance of the Purchases Allowances Account* shows the net amount of allowances granted to the business by the seller on account of merchandise

purchased being unsatisfactory. It is shown on the Statement of Profit and Loss as a deduction from the net invoice cost of purchases (balance of the Purchases account) to ascertain the net purchases (Illustration No. 93).

FREIGHT IN ACCOUNT

§ 142. The Purpose of this Account is to show the freight, drayage, express, and postage cost of merchandise purchased. The word "in" is used in connection with the title of this account to distinguish the account from that which shows the record of freight and drayage on merchandise sold, usually designated as "Freight Out". Freight and drayage on merchandise purchased are part of the purchase cost of the merchandise, while freight and drayage on merchandise sold are part of the selling cost; hence the necessity for recording the two classes of freight and drayage in separate accounts.

Debit the Freight In Account:

¶ 1. For transportation (freight, express, and postage) cost and drayage cost on merchandise purchased.

Credit the Freight In Account:

¶ 2. For any adjustments which reduce the transportation and drayage cost as shown by the debit side.

¶ 3. *The Balance of the Freight In Account* shows the transportation and drayage cost of merchandise purchased; the drayage cost may be shown in a separate account if desired. The balance of the Freight In account is shown on the Statement of Profit and Loss as a part of the cost of the merchandise purchased (Illustration No. 93).

INVENTORY ACCOUNT

§ 143. The Purpose of this Account, as explained in § 55, is to show the value of the merchandise inventory at the close of a fiscal period. Cost price is usually used in ascertaining the value of the inventory; market value may be used where there has been a radical decrease in cost price since the merchandise was purchased. The delivered cost is usually regarded as the cost price of the merchandise and includes invoice and transportation cost. Market price is the price at which the merchandise could be purchased at the time the inventory is made.

Debit the Inventory Account:

¶ 1. At the close of the fiscal period, with the value of the merchandise in stock as shown by the inventory made at that time.

Credit the Inventory Account:

¶ 2. At the beginning of the next fiscal period or at its close, for the value of the merchandise in stock as shown by the debit entry.

¶ 3. *The Balance of the Inventory Account.* The value of the merchandise in stock at the beginning of a current fiscal period will be shown recorded either in the Inventory account or in the Purchases account depending on when the entry mentioned in ¶ 2 is made; this value is shown as an addition to the cost of purchases on the Statement of Profit and Loss (Illustration No. 93). The value of merchandise on hand at the close of a current fiscal period will appear on

the debit side of the Inventory account; it is shown as a current asset on the Balance Sheet (Illustration No. 92) and as a deduction from the net cost of merchandise purchased on the Statement of Profit and Loss (Illustration No. 93).

If desired, the value of merchandise on hand at the close of the fiscal period may be recorded in an Inventory account with the year written after the name of the account, in which case the amount would remain in the Inventory account until the close of the next fiscal period and the inventory at the close of the next fiscal period would be recorded in an Inventory account under the year. This may be illustrated as follows: Davis Bros. began business January 1, 1920. December 31, 1920, the merchandise inventory was \$5,651.75; this was recorded in an account with "Inventory 1920" and was allowed to remain in this throughout the year 1921. December 31, 1921, the inventory was \$6,278.85. This was recorded in an account with "Inventory 1921". After the ledger was closed December 31, 1921, the "Inventory 1920" account was in balance and the value of merchandise in stock December 31, 1921, was shown throughout the year 1922 in the "Inventory 1921" account.

SALES ACCOUNT

§ 144. **The Purpose of this Account** is to show the gross returns from the sales of merchandise; when the account is kept for this purpose, the returns and allowances are recorded in separate accounts. As explained in § 18, the account may show the net returns from sales, in which case returns and allowances are recorded in the Sales account and not in separate accounts.

Debit the Sales Account:

Credit the Sales Account:

¶ 1. For the amount of errors which reduce the returns from merchandise sold as shown by the credit side.

¶ 2. For the selling price of merchandise sold.

¶ 3. *The Balance of the Sales Account* shows the gross sales during the fiscal period. It is shown on the Statement of Profit and Loss as "Gross Sales" under the caption "Returns from Sales" (Illustration No. 93).

SALES RETURNS ACCOUNT

§ 145. **The Purpose of this Account** is to show the net value of merchandise sold and later returned by the one to whom it was sold. If the amount is unusually large, the management will know that the merchandise it offers for sale is not giving satisfaction to customers and can take proper steps to remedy this condition.

Debit the Sales Returns Account:

Credit the Sales Returns Account:

¶ 1. For the selling price of merchandise returned to the business by customers.

¶ 2. For any adjustments which reduce the value of merchandise returned as shown by the debit side.

¶ 3. *The Balance of the Sales Returns Account* shows the net amount of sales returned by customers. It is shown on the Statement of Profit and Loss (Illustration No. 93) as a deduction from the gross returns from sales (balance of the Sales account).

SALES ALLOWANCES ACCOUNT

§ 146. **The Purpose of this Account** is to show the net amount of allowances granted by the business to its customers; these allowances are usually granted because the merchandise is not equal to the sample, or was received by the customer in bad condition because of imperfect manufacture or carelessness in packing. Sales allowances should be recorded separately from sales returns because these allowances are a loss, while merchandise returned is placed in stock for resale.

Debit the Sales Allowances Account:

Credit the Sales Allowances Account:

¶ 1. For the amount of allowances granted by the business to its customers.

¶ 2. For any adjustments which reduce the amount of allowances granted to customers as shown by the debit side.

¶ 3. *The Balance of the Sales Allowances Account* shows the net amount of allowances granted to customers on account of merchandise sold being unsatisfactory. It is shown on the Statement of Profit and Loss (Illustration No. 93) as a deduction from the gross returns from sales (balance of the Sales account).

§ 147. **Merchandise Discount** refers to the discount deducted from purchases and sales invoices as per terms. The discount deducted on purchase invoices is usually referred to as "purchases discount" or "discount on purchases"; the discount deducted from sales invoices is usually referred to as "sales discount" or "discount on sales". The purpose of merchandise discount is to encourage prompt payment. It is quite evident that the buyer will make an effort to pay for merchandise within the terms of discount because by so doing he can cancel an obligation with an asset of less value and thus make a profit.

PURCHASES DISCOUNT ACCOUNT

§ 148. **The Purpose of this Account** is to show the net amount of discount resulting from the payment of purchases invoices subject to discount within the terms of the discount as stated in the invoices. The discount is the difference between the amount of the check required to pay the purchases invoice and the net amount of the purchases invoice.

Debit the Purchases Discount Account:

Credit the Purchases Discount Account:

¶ 1. For adjustments which reduce the amount of the purchases discount as shown by the credit side of the account.

¶ 2. For the discount deducted on purchases when paid within the terms of the invoices either in full or in part.

¶ 3. *The Balance of the Purchases Discount Account* shows the net amount of the discount deducted for prompt payment of purchases invoices during the time for which the record is kept. If the management regards purchases discount as a non-operating income, it is listed with the other income on the Statement of Profit and Loss (Illustration No. 93); if purchases discount is regarded as a deduction from the cost of merchandise purchased, it is shown on the Statement of Profit and Loss as a deduction from the cost of purchases. It is usually deducted from the gross purchases in the preparation of the income tax return (Art. 1583, Treasury Reg. No. 62).

NOTE—The purpose of the discussion of purchases discount as given here is to show the debits and credits applicable to the account; these are the same whether purchases discount is regarded as a deduction from the cost of merchandise purchased or as a non-operating income. Since the statistical information gained from the facts shown by the Purchases Discount account is the same no matter how it is regarded, and since the net profit is the same, it is not deemed advisable to enter into a discussion as to whether it is better to regard it as a deduction from purchases cost or as a non-operating income. It is regarded as a non-operating income in the exercises in this text and in the practice sets, and as a deduction from gross purchases on the income tax return.

INTEREST EARNED ACCOUNT

§ 149. **The Purpose of this Account**, as explained in § 107, is to show the interest income to the business through the use of its money by others. This is regarded as a non-operating income because it is an income that may not occur in every fiscal period.

Debit the Interest Earned Account:

- ¶ 1. For any deductions which reduce the income from interest as shown by the credit side.

Credit the Interest Earned Account:

- ¶ 2. For interest income from accounts and notes receivable.

¶ 3. *The Balance of the Interest Earned Account* shows the net returns from interest to the business. It is shown on the Statement of Profit and Loss as one of the non-operating incomes (Illustration No. 93).

Exercise No. 62, Purchases and Purchases Discount.

The student is required to show (a) the entry in journal form when the purchase in the invoice below was made; (b) the entry in journal form when the invoice was paid by the check below; and (c) the posting of these entries to the Purchases and Purchases Discount accounts.

 OFFICES Nº 623 MAIN ST. WAREHOUSE ST. CLAIR AND BOND ST.	J A CHURCH, President AT NESBITT, Vice President W D WOLFE, Secy L LEVANS, Treas The Cincinnati Cordage and Paper Co. DEPENDABLE  Nº 623 MAIN ST. CINCINNATI Nº 535 EAST THIRD ST. DAYTON	TERMS 2/30, n/60 SOLD TO CINCINNATI South-Western Publishing Co. 309 W. Third St., Cincinnati, Ohio. 6/18 192 <i>Accounts to be settled Monthly</i> <i>No Claims allowed on this Bill unless made within Five Days after receipt of Goods. Pay nothing to Agents unless by our written Authority.</i>		
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%; border: 1px solid black; padding: 5px;"> 50207 9 x 14½ String and Button Fasten Envelopes per M 19.75 </td> <td style="width: 40%; border: 1px solid black; padding: 5px; text-align: right;"> 991 59 </td> </tr> </table>			50207 9 x 14½ String and Button Fasten Envelopes per M 19.75	991 59
50207 9 x 14½ String and Button Fasten Envelopes per M 19.75	991 59			

Purchases Invoice Subject to Discount.

South-Western Publishing Company Incorporated 309 West Third Street CINCINNATI, OHIO, July 8 192	No. <u>91202</u>				
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%; border-bottom: 1px solid black;"> PAY TO THE ORDER OF The Cincinnati Cordage & Paper Co. - - - - - </td> <td style="width: 40%; border-bottom: 1px solid black; text-align: right;"> \$ 971.76 </td> </tr> <tr> <td colspan="2" style="text-align: center; padding-top: 5px;"> PAY \$971 AND 76/100. </td> </tr> </table>		PAY TO THE ORDER OF The Cincinnati Cordage & Paper Co. - - - - -	\$ 971.76	PAY \$971 AND 76/100.	
PAY TO THE ORDER OF The Cincinnati Cordage & Paper Co. - - - - -	\$ 971.76				
PAY \$971 AND 76/100.					
<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;"> TO THE FIFTH-THIRD NATIONAL BANK OF CINCINNATI. </td> <td style="width: 50%; border-bottom: 1px solid black; text-align: right;"> DOLLARS <i>W. O. Crosswhite</i> SOUTH-WESTERN PUBLISHING CO. SECY. </td> </tr> </table>		TO THE FIFTH-THIRD NATIONAL BANK OF CINCINNATI.	DOLLARS <i>W. O. Crosswhite</i> SOUTH-WESTERN PUBLISHING CO. SECY.		
TO THE FIFTH-THIRD NATIONAL BANK OF CINCINNATI.	DOLLARS <i>W. O. Crosswhite</i> SOUTH-WESTERN PUBLISHING CO. SECY.				

Check in Payment of Purchases Invoice Less Discount.

**Exercise No. 63, Recording Transactions with Purchases
and Purchases Discount.**

<i>Antrim & Son</i>						<i>Macon, Ga.</i>					
<i>192</i>						<i>192</i>					
<i>May 20</i>	<i>Returned</i>	<i>\$12</i>	<i>162.50</i>			<i>May 16</i>	<i>2% 30 days</i>	<i>P6</i>	<i>862.90</i>		

The student is required to show (a) the entries in journal form for the amounts recorded in the above ledger account; (b) the check stub filled out when the check was issued in payment of the invoice on the day it was due; (c) the entry in journal form to record the payment.

**Exercise No. 64, Recording Transactions with Capital, Purchases,
Sales, Returns, Allowances, and Purchases Discount.**

Record in journal form the following transactions performed by Lewis & Statler, during the month of August:

- Aug. 1. S. A. Lewis and C. F. Statler formed a partnership, each investing \$2,500.00 cash.
- Purchased from L. J. Kent Mfg. Co., Pittsfield, merchandise per purchases invoice dated today, terms 2% 10 days, \$2,000.00. They prepaid the freight on this shipment, \$214.50, which was added to the amount of the purchase on the invoice.
3. Cash sales to date per cash register, \$43.40.
Sold Holmes & Warder, Richmond, on account, merchandise per sales invoice rendered, \$164.50.
 6. Received credit from the L. J. Kent Mfg. Co. for \$35.00, value of merchandise returned.
 10. Paid the L. J. Kent Mfg. Co. \$2,140.20 in full for purchases invoice received on the 1st, less discount on the purchase as per terms.
Cash sales for the week per cash register, \$175.11.
 12. Sold Holmes & Warder, Richmond, on account, merchandise per sales invoice rendered, \$290.20.
 15. Purchased from the L. J. Kent Mfg. Co., Pittsfield, merchandise per purchases invoice dated August 13, terms 2% 10 days, \$855.00. They prepaid the freight on this shipment, \$70.50, which was added to the amount of the purchase on the invoice.
 17. Cash sales for the week per cash register, \$198.20.
 19. Allowed Holmes & Warder credit for \$16.50, value of merchandise returned.
 20. Purchased merchandise for cash, \$2,000.00.
 22. Received credit from the L. J. Kent Mfg. Co. for \$13.80 because part of the merchandise delivered on the 15th was received in damaged condition.

(Concluded on page 162.)

QUESTIONS.

(Exercise No. 64—Continued from page 161.)

23. Paid the L. J. Kent Mfg. Co. for purchases invoice received on the 15th, including the freight, less allowance of the 22d and discount on the purchase as per terms.
24. Cash sales for the week per cash register, \$341.19.
26. Sold S. T. Hollowell, City, on account, merchandise per sales invoice rendered, \$69.80.
28. Allowed S. T. Hollowell credit for \$5.00 because part of the merchandise sold him on the 26th was defective.
31. Cash sales for the week per cash register, \$437.60.

When the above transactions have been recorded in the journal as instructed, open the necessary accounts on a sheet of ledger paper, allowing five lines for each account except Cash, L. J. Kent Mfg. Co., and Sales, each of which requires ten lines; post, and take a Trial Balance.

QUESTIONS.

1. Why is it advisable for the bookkeeper to show operating income separate from non-operating income on the Statement of Profit and Loss?
2. Name the operating income and one or more non-operating incomes of a business engaged in the manufacture of ice.
3. Why and when is the balance of the Inventory account closed into the Purchases account?
4. (a) What does the balance of the Sales Allowances account indicate to the management? (b) the balance of the Sales Returns account?
5. (a) What does the balance of the Purchases Allowances account indicate to the management? (b) the balance of the Purchases Returns account?
6. (a) What does the balance of the Freight In account show? (b) What does this mean to the management? (c) What does the balance of the Freight In account determine with regard to the location of the business? (d) Give an example.
7. What is the purpose of merchandise discount?
8. What does the failure of a customer to pay a sales invoice subject to a three per cent discount within the terms of the discount indicate to the owner of the business?
9. Why is the discount deducted from purchases invoices an income to the business?
10. (a) How will the amount of purchases discount be shown on the Statement of Profit and Loss if the management prefers to regard it as a non-operating income? (b) How will it be shown if the management prefers to regard it as a deduction from the cost of merchandise purchased? (c) What effect will each of these methods have on the net profit of the business?

Chapter XVI

OPERATING AND NON-OPERATING EXPENSE

The Purpose of this Chapter is to explain the accounts necessary to record the expenses which are anticipated at the time the business is organized, and the accounts which are needed to record other expenses that may occur in the operations of the business. The owner of the business should know the cost of operating the business separate from special costs in order to control better the future operations of the business.

§ 150. Operating Expense. When a business is organized the owner or owners know that certain expenses will be incurred through its operations; these include the cost of rent, salaries, advertising, insurance, and taxes. Expenses of this nature are usually referred to as operating expenses because they are necessary in the operations of the business and will occur in every fiscal period. Operating expenses may be classified into three groups: (a) those applicable to the buying of merchandise or service which the business sells; (b) those which refer to the general administration of the business; and, (c) those applicable to the selling of the merchandise or service which the business sells.

BUYING EXPENSE ACCOUNT

§ 151. The Purpose of this Account is to show the cost of purchasing merchandise. This includes the salaries of the buyer and his assistants, traveling expenses paid by the buyer, and any other expenses applicable to the purchase of merchandise. If an account is not kept with Buying Expense, the cost of buying merchandise is debited to the Administrative Expense account.

Debit the Buying Expense Account:

¶ 1. For all expenses incurred in connection with the purchase of merchandise.

Credit the Buying Expense Account:

¶ 2. For any adjustments which reduce the cost of purchasing merchandise as shown by the debit side.

¶ 3. *The Balance of the Buying Expense Account* shows the net cost of purchasing merchandise; it is shown on the Statement of Profit and Loss as one of the operating costs of the business.

SELLING EXPENSE ACCOUNT

§ 152. The Purpose of this Account is to show the cost of selling merchandise. This includes the salaries of the sales manager and his assistants, sales clerks, and traveling salesmen; expenses of the sales manager, his assistants, and traveling salesmen in connection with making sales; advertising cost, insurance on merchandise and store fixtures, depreciation on store fixtures, and other selling costs of similar nature. The cost of delivering merchandise sold is a selling cost and is recorded in the Selling Expense account if an account is not kept with Delivery Expense. The owner needs to know the cost of selling goods because this cost should be a reasonable percentage of the sales.

Debit the Selling Expense Account:

Credit the Selling Expense Account:

¶ 1. For all expenses directly incurred in connection with the sales of merchandise.

¶ 2. For any adjustments which reduce the cost of selling merchandise as shown by the debit side.

¶ 3. *The Balance of the Selling Expense Account* shows the net cost of selling merchandise; it is shown on the Statement of Profit and Loss as one of the operating costs of the business (Illustration No. 93).

Rent of a special warehouse used for the storing of merchandise may be regarded as a selling expense but rent of the building occupied as a home for the business is usually considered an administrative expense (§ 156).

DELIVERY EXPENSE ACCOUNT

§ 153. **The Purpose of this Account** is to show the cost of delivering merchandise sold; this includes the wages of drivers and chauffeurs, repairs on wagons or automobiles used in the delivery of merchandise, insurance and depreciation on delivery equipment, and any other costs applicable to the delivery of merchandise sold. Merchandise shipped by freight must be delivered to the railroad or steamship company and the cost of this delivery is a part of the delivery expense the same as the delivery of merchandise direct to the customer. The cost of delivering merchandise sold is a part of the selling expense and may be recorded in the Selling Expense account. The owner needs to know the cost of delivering merchandise sold (a) because this should be a reasonable percentage of the sales; (b) that he may determine the most economical method of making delivery.

Debit the Delivery Expense Account:

Credit the Delivery Expense Account:

¶ 1. For all expenses directly incurred in connection with the delivery of merchandise.

¶ 2. For any adjustments which reduce the cost of delivering merchandise as shown by the debit side.

¶ 3. *The Balance of the Delivery Expense Account* shows the net cost of delivering merchandise sold; it is shown on the Statement of Profit and Loss as one of the operating costs of the business, in connection with other selling costs.

LOSS ON DOUBTFUL ACCOUNTS ACCOUNT

§ 154. **The Purpose of this Account** is to show the amount which it is estimated will be lost on account of uncollectible accounts receivable. This account is opened at the close of the fiscal period when the estimated amount is recorded, and is closed into the Profit and Loss account when the ledger is closed. It remains in balance during the fiscal period.

Debit the Loss on Doubtful Accounts Account:

Credit the Loss on Doubtful Accounts Account:

¶ 1. For the amount of estimated loss on accounts receivable.

¶ 2. For the amount shown on the debit side at the time the ledger is closed.

¶ 3. *The Balance of the Loss on Doubtful Accounts Account* shows the loss resulting from the reserve for doubtful accounts (§ 162, ¶ 4). It is usually shown on the Statement of Profit and Loss as one of the selling expenses, because credit is extended through the sales department and this loss is the result of the extension of credit (Illustration No. 93).

ADMINISTRATIVE EXPENSE ACCOUNT

§ 155. **The Purpose of this Account** is to show the cost of administration to the business. This includes the salaries of the manager and his assistants, salaries of bookkeepers, stenographers, and other office assistants, rent, heat, light, postage for use in the office, insurance and depreciation on office equipment, taxes, repairs, and other operating expenses which are not applicable to the cost of buying, selling, or delivery. If the business owns its own home, insurance, depreciation, taxes, and repairs on buildings are also shown in this account unless a separate account is kept with Building Expense, in which case these costs are debited to the Building Expense account (§ 156). The management needs to know the cost of administering the affairs of the business because this should be a reasonable percentage of the sales.

Debit the Administrative Expense Acct.:

Credit the Administrative Expense Acct.:

¶ 1. For all costs applicable to the administration of the business.

¶ 2. For any adjustments which reduce the cost of administering the affairs of the business as shown by the debit side.

¶ 3. *The Balance of the Administrative Expense Account* shows the net cost of administration to the business; it is shown on the Statement of Profit and Loss as one of the operating costs of the business (Illustration No. 93).

BUILDING EXPENSE ACCOUNT

§ 156. **The Purpose of this Account** is to show the cost of maintaining the buildings owned by the business and occupied by it as a home. The cost of maintaining the buildings is one of the operating costs of the business of the same nature as rent.

Debit the Building Expense Account:

Credit the Building Expense Account:

¶ 1. For amounts paid for maintaining the buildings, such as painting, papering, reroofing with the same kind of material, reflooring with the same kind of material, etc.

¶ 3. For adjustments which reduce the maintenance cost as shown by the debit side.

¶ 2. For insurance, taxes, and depreciation on the building.

¶ 4. *The Balance of the Building Expense Account* shows the cost to the business of owning its own home; it is shown on the Statement of Profit and Loss as one of the operating costs of the business (Illustration No. 93).

If an income is derived through the rent of any part of the building, the amounts received as rent may be credited to the Building Expense account or to a special account with Building Revenue. The use of the building will determine the expense account affected by the cost of maintaining it; unless a number of departments are maintained, the cost of owning its own home may be regarded by the business as an administrative cost.

§ 157. **Non-operating Expense.** There are many expenses in connection with the operations of the business which may occur in one fiscal period but not in another; these include interest cost, the discount deducted by customers for prompt remittance for sales invoices, attorneys' fees for special purposes, and many other miscellaneous expenses. Interest Cost and Sales Discount are the two non-operating expense accounts discussed at this time.

INTEREST COST ACCOUNT

§ 158. **The Purpose of this Account** is to show the expenses incurred by the business through the premiums paid for the use of money, as explained in § 106. Interest cost is one of the expenses of the business because it represents a service cost (for the use of money) the same as salaries and rent.

Debit the Interest Cost Account:

¶ 1. For interest on accounts and notes payable.

Credit the Interest Cost Account:

¶ 2. For any adjustments which reduce the cost of interest shown by the debit side.

¶ 3. *The Balance of the Interest Cost Account* shows the net cost of interest to the business; it is shown on the Statement of Profit and Loss as a non-operating expense (Illustration No. 93).

SALES DISCOUNT ACCOUNT

§ 159. **The Purpose of this Account** is to show the net amount of discount resulting from customers paying sales invoices within the terms of discount. When remittance is received from a customer within the terms of discount, the amount received will be less than the amount debited to his account because of the discount deducted. One asset (the customer's account) is canceled with another asset (cash), but, since the amount of the latter is less than the former, there is a cost to the business for this collection. This cost may be regarded as reducing the returns from sales or as a deduction from income in the same manner as purchases discount may be regarded as reducing the cost of merchandise purchases or as a profit resulting from the business paying its bills promptly.*

Debit the Sales Discount Account:

¶ 1. For the discount deducted on sales when paid within the terms of the sales invoices.

Credit the Sales Discount Account:

¶ 2. For any adjustments which reduce the amount of discount deducted by customers as shown by the debit side.

¶ 3. *The Balance of the Sales Discount Account* shows the net amount of discount deducted by customers for the prompt payment of sales invoices during the time for which the record is kept. If the management regards sales discounts as a non-operating expense, it is shown as such on the Statement of Profit and Loss (Illustration No. 93); if sales discount is regarded as a deduction from the returns from sales, it is deducted from the gross sales on the Statement of Profit and Loss. It is usually deducted from the gross sales in the preparation of the income tax return. (Office Decision 146.—Sec. 234—Art. 561).

Exercise No. 65, Sales and Sales Discount.

The Excelsior Mfg. Co., Providence, completed the following transactions with the Boot Shop, a customer in Springfield, during the first six months of 1923: Jan. 10, sale No. 26421, terms 3/10, n/30, \$276.50; Jan. 19, received check from the Boot Shop in full of sale of the 10th; Mar. 6, sale No. 27491, terms 2/30, n/60, \$279.60; Mar. 26, sale No. 27671, terms 4/10, n/60, \$125.16; Apr. 5, received check from the Boot Shop in full of account; May 3, sale No. 30009, terms 2/30, n/60, \$198.65; May 18, sale No. 31117, terms 1/10, n/30, \$261.48; June 2, received check from the Boot Shop in full of account.

The student is required to (a) make in journal form the entries required to record the transactions on the books of the Excelsior Mfg. Co., allowing discount when check was received within the discount period, (b) post, and (c) take a Trial Balance of balances.

*Sales discount is treated as a non-operating expense in the exercises in this text and the practice sets, and as a deduction from gross sales on the income tax return.

Exercise No. 66, Recording Transactions with Sales and Sales Discount.

Show (a) the entry in journal form when the sales invoice shown below was issued; (b) the entry in journal form when the check shown below was received in payment for the invoice, less discount; and (c) the posting of these entries to the proper accounts. (Credit Delivery Expense for the postage.)

K			
9120			
June 14, 192			
Mason Book & Stationery Co., 4179 Main St. Berwick, Pa.			
2/10, n/30	PP	4th zone	
2 rms. 8½ x 11 Penmanship Paper	1.00	2 00	
5 " Balance Sheet Paper	5.00	25 00	27 00
	Postage		80
			27 80

Carbon Copy of Sales Invoice Subject to Discount.

PENNSYLVANIA.	BERWICK, PA. June 20 19 No. 189
	60-713 THE BERWICK NATIONAL BANK 60-713
	PAY TO <u>South-Western Publishing Co. - - -</u> OR ORDER \$ <u>27.26</u>
	<u>Twenty-seven and 26/100 - - - - -</u> DOLLARS
	SAFE DEPOSIT BOXES FOR RENT
	MASON BOOK AND STATIONERY CO. per <u>M. M. Mason</u>

Check in Payment of Sales Invoice Less Discount.

Exercise No. 67, Recording Transactions with Expense.

Record direct in the accounts discussed in this chapter, the following transactions, performed by A. R. Pendleton & Co., wholesale merchants:

- July 1. Paid rent, \$250.00. (\$ 155.)
2. Gave A. R. Pendleton a check for \$48.50, expenses on a buying trip.

8. Gave Waite & McBride a check in payment for our note No. 11 due today, and \$3.25 interest on the same.
9. Paid \$2.25 express on shipment to an out-of-town customer, our agreement being to deliver the merchandise without extra charge.
11. Paid for the following services: telephone, \$12.50; lighting, \$18.30; repairs on delivery truck, \$12.75.
12. Payroll: office, \$280.00; store, \$600.00; drivers, \$150.00.
15. Paid the City Ice Co. \$6.00, ice for water-cooler.
16. Bought ink, carbon paper and rubber stamps for use in the office, \$10.00.
18. Received a cashier's check from the Merchants National Bank in payment for note left for collection, less 50c collection charges. (§ 155.)
19. Paid \$3.50 for installing plate glass store window.
21. Returned a part of the office supplies purchased on the 16th and received credit for \$1.50.
22. Paid the Times-Star \$695.60 for advertising space.
25. Gave A. R. Pendleton a check for \$21.75, expenses on a selling trip.
26. Payroll: office, \$280.00; store, \$600.00; drivers, \$150.00.
28. Received a check from B. M. Lardner in full of account, less \$6.38 discount.
29. Gave Harris Bros. our note in full of account; the face of this note included \$5.15 interest.
31. Monthly payroll: purchasing agent, \$150.00; traveling salesman, \$750.00; general manager, \$300.00; advertising agent, \$150.00. At the close of the fiscal period, the estimated depreciation is as follows: office equipment, \$100.00; store fixtures, \$225.00; delivery equipment, \$450.00. The estimated loss on uncollectible accounts receivable is \$135.60.

QUESTIONS

1. (a) Why does the business man need to know the cost of buying goods?
(b) Would you consider it advisable to include the cost of buying as a part of the cost of merchandise purchased? (c) Why?
2. Why is it necessary to record the cost of hauling merchandise purchased from the station to the store separate from the cost of hauling merchandise sold from the store to the customer?
3. If the business owns its own home, will the balance of the Building Expense account be considered as the total cost of rent or will interest on the investment in the building be added?
4. Why are expenses classified as "operating" and "non-operating"?
5. Why do merchants deliver to their customers the merchandise sold?
6. Why is the delivery cost a part of the selling cost?
7. Under what conditions would it be advisable to record the cost of advertising separate from the selling cost?
8. Why is interest paid for the use of money an expense to the business?
9. (a) What are the two methods of showing sales discount on the Statement of Profit and Loss? (b) Explain each.
10. If a partner devotes his time equally to the buying and selling of merchandise, what accounts are debited for his salary?

Chapter XVII

CONTROLLING ACCOUNTS

The Purpose of this Chapter is to explain controlling accounts, one of the most important time-savers applicable to the work of the bookkeeper. The business man is interested in time-saving methods because they reduce the cost of operating his business; the bookkeeper is interested in time-saving methods because they increase his efficiency.

§ 160. A **Controlling Account** is one which represents in total the facts shown in detail in a number of other accounts. Controlling accounts are used most frequently with accounts receivable and accounts payable because a great number of accounts are required to record the transactions with customers and creditors. If the accounts with customers and creditors can be eliminated from the Trial Balance, the work of the bookkeeper in preparing the Trial Balance will be greatly reduced.

If there are in the ledger one hundred accounts with creditors and two hundred accounts with customers, and twenty-five accounts which relate to the operations of the business, the Trial Balance will contain 325 accounts; if the one hundred accounts with creditors can be represented by one account and the two hundred accounts with customers by one account, then the Trial Balance will contain only twenty-seven accounts. This elimination can be effected by having an account with Accounts Payable which will show in total the transactions recorded in all of the accounts with creditors, and an account with Accounts Receivable which will show in total the transactions recorded in all the accounts with customers. When this plan is followed, it is customary to open the accounts with creditors and with customers in separate divisions of the main ledger or in separate ledgers.

The purpose of the controlling account is to save time in taking the Trial Balance and in checking the posting in case the Trial Balance does not balance. This is made clear by reference to Illustration No. 70 and the explanation in connection therewith.

ACCOUNTS RECEIVABLE ACCOUNT

§ 161. **The Purpose of this Account** is to show in total the detailed debits and credits to accounts with customers in another part of the same ledger or in a separate ledger. If all the transactions with customers are recorded in this account, it will not be necessary to show the various accounts with customers on the Trial Balance. This is a controlling account because it shows in total the transactions recorded in a group of related accounts. When only one ledger is needed for the accounts with customers, only one controlling account with Accounts Receivable is necessary. When the operations of the business are extensive, the accounts receivable ledgers may be grouped by territories, in which case the name of the controlling account will not be Accounts Receivable, but the territory represented by the accounts in the ledger as "City Ledger", "Texas Ledger", "California Ledger", "Southern Ledger", etc. It is not necessary to keep a separate controlling account with each ledger, as one controlling account may control several ledgers, but it is better to have a controlling account with each because of the time saved in detecting errors.

CONTROLLING ACCOUNTS.

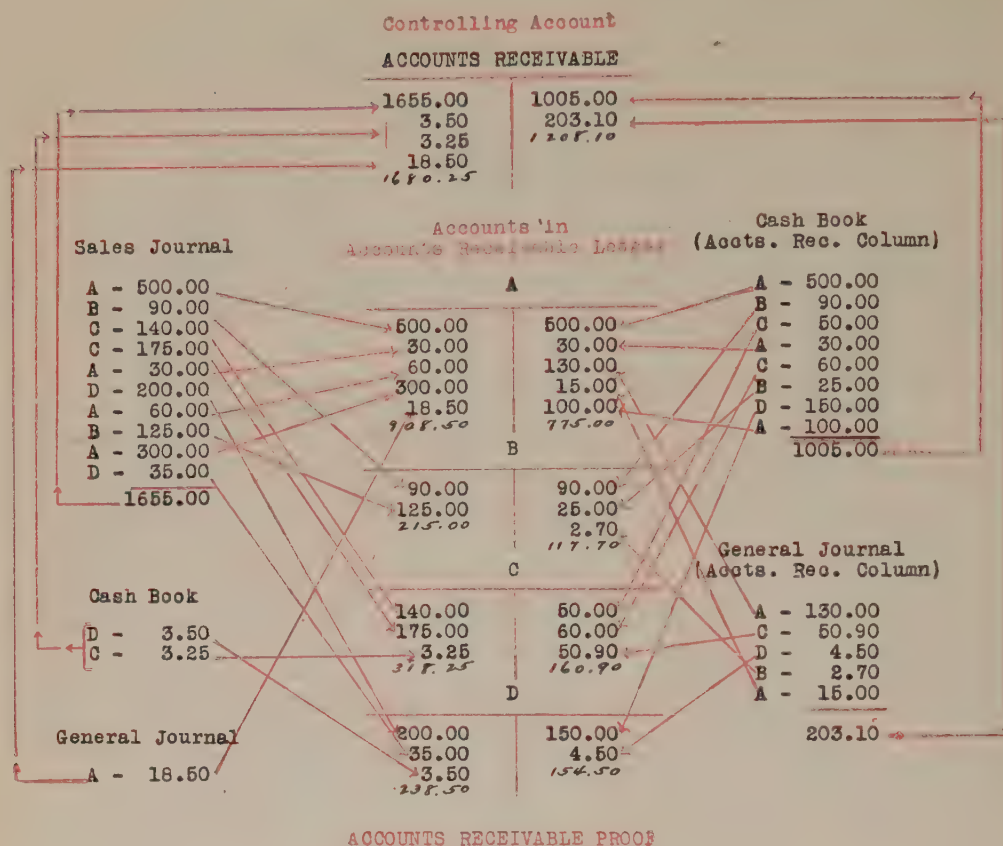


Illustration No. 70, Chart Showing Operation of a Controlling Account.

EXPLANATION. This chart contains a record of ten sales in the sales journal, two cash payments to customers in the cash book, one debit to a customer in the general journal, eight cash receipts from customers in the cash book, and five receipts of assets other than cash from customers in the general journal; also an account in the general ledger with Accounts Receivable, the separate accounts with the four customers in the accounts receivable ledger, and the proof of the subsidiary ledger at the end of the month. The red lines indicate posting from the books of original entry to the accounts in the accounts receivable ledger, the posting of the totals to the Accounts Receivable account in the general ledger, and the relation of the proof of the totals to the accounts in the accounts receivable ledger and the Accounts Receivable account in the general ledger. The dates are omitted and letters are used to indicate the names of the customers to conserve space. It is assumed that cash received from customers is entered in a special column on the receipts side of the cash book, and that credit amounts to customers recorded in the general journal are entered in a special column. The two amounts recorded on the payments side of the cash book are posted to accounts in the accounts receivable ledger and are posted separately to the controlling account; this is also true of the one amount recorded in the general journal as a debit to an account receivable.

Debit the Accounts Receivable Account:

- ¶ 1. For the total of the sales journal at the end of the month.

(If amounts to be debited to accounts in the accounts receivable ledger are recorded in the general journal or on the payments side of the cash book, and no special column is provided for Accounts Receivable Dr., each amount should be posted to the Accounts Receivable account at the time it is posted to the account in the accounts receivable ledger.)

¶ 3. *The Balance of the Accounts Receivable Account* shows the total due from all customers and must be the same as the total of the various balances shown in the accounts receivable ledger. It is a current asset and is shown as such on the Balance Sheet, being listed after Cash and Notes Receivable (Ill. No. 92).

¶ 4. *Accounts Receivable Proof.* The Trial Balance is made from the accounts in the general ledger, the balance of the Accounts Receivable account being used instead of the various balances of the accounts in the accounts receivable ledger. When the correctness of the posting to the general ledger has been proved by the Trial Balance, it is necessary to prove the correctness of the posting to the accounts in the accounts receivable ledger. The total of all the debit balances in the accounts receivable ledger less any credit balances should be the same as the balance of the Accounts Receivable account in the general ledger.

If a sale to a customer is recorded in the sales journal as \$26.1c but is posted to the account in the accounts receivable ledger as \$26.00, it is quite evident that there will be a discrepancy between the balance of the Accounts Receivable account in the general ledger and the total of the balances in the accounts receivable ledger. It is to detect errors of this nature that a proof is made of the posting to the accounts in the accounts receivable ledger.

RESERVE FOR DOUBTFUL ACCOUNTS ACCOUNT

§ 162. **The Purpose of this Account** is to show the reserve set up to take care of the possible loss resulting from failure to collect from customers. No matter how careful a credit man may be in extending credit, some of the accounts are almost sure to prove uncollectible. Unless this is taken into consideration at the time the Balance Sheet is prepared, the report to the management will show an inflated value for the asset Accounts Receivable.

While the amount of the reserve may be more or less than is necessary to take care of the loss due to uncollectible accounts, yet it does indicate to the management that this loss has been taken care of as far as possible. The reserve is usually based on a percentage of the total sales on account or the total amount due from customers at the close of the period. The 1921 Revenue Act provides a deduction for "debts ascertained to be worthless and charged off within the taxable year (or, in the discretion of the Commissioner, a reasonable addition to a reserve for bad debts)".

Debit the Reserve for Doubtful Accounts Account:

- ¶ 1. For the amount that cannot be collected from a customer, whether it is a part or all of the balance of his account.

Credit the Reserve for Doubtful Accounts Account:

- ¶ 2. At the close of each fiscal period, for the amount of reserve designated by the owner or management of the business.

¶ 3. *The Balance of the Reserve for Doubtful Accounts Account* shows the net amount of the reserve available to take care of worthless accounts; it is shown on the Balance Sheet as a deduction from Accounts Receivable so that the management may know the amount due from customers, the estimated loss, and the net amount that it is expected will be collected.

¶ 4. *Entry to Set Up Reserve for Doubtful Accounts.* At the close of each fiscal period an entry is made in the general journal to record the estimated loss on doubtful accounts and to set up a reserve to take care of this loss. The Loss on Doubtful Accounts account (§ 154) is debited and the Reserve for Doubtful Accounts account credited. If the total amount owed the business by customers, as shown by the balance of the Accounts Receivable account, is \$5,575.00, and it is estimated that one per cent of these accounts is uncollectible, the entry in journal form will appear as in the illustration below.

December 31, 192

<i>Loss on Doubtful Accounts</i>	<i>5575</i>	
<i>Reserve for Doubtful Accounts</i>		<i>5575</i>
<i>One per cent of accounts receivable set aside as a reserve for doubtful accounts</i>		

The Loss on Doubtful Accounts account is regarded as a selling expense as explained in § 154.

ACCOUNTS PAYABLE ACCOUNT

§ 163. **The Purpose of this Account** is to show in total the detailed debits and credits to accounts with creditors in another part of the same ledger or in a separate ledger. If all the transactions with creditors are recorded in this account, it will not be necessary to show the various accounts with creditors on the Trial Balance. This is a controlling account because it shows in total the transactions recorded in detail in a group of related accounts.

When the operations of the business are extensive and cover a wide territory, the accounts payable, like the accounts receivable, may be kept in separate ledgers, each of which is given a title designating a specific territory. A controlling account may be kept with each ledger or with a group of ledgers.

Debit the Accounts Payable Account:

¶ 1. For each amount recorded in the general journal or on the payments side of the cash book as a debit to an account in the accounts payable ledger; these amounts are usually of sufficient frequency to require a special column in each of these books of original entry, in which case the posting is at the end of the month.

Credit the Accounts Payable Account:

¶ 2. For the total of the purchases journal at the end of the month.

(If amounts to be credited to accounts in the accounts payable ledger are recorded in the general journal or on the receipts side of the cash book, and no special column is provided for Accounts Payable Cr., each amount should be posted to the Accounts Payable account at the time it is posted to the account in the accounts payable ledger.)

¶ 3. *The Balance of the Accounts Payable Account* shows the total owed to all creditors and must be the same as the total of the various balances shown in the accounts payable ledger. It is a current liability and is shown as such on the Balance Sheet being listed after Notes Payable (Illustration No. 92).

¶ 4. *Accounts Payable Proof.* The accounts payable are proved in the same manner as accounts receivable. (§ 161, ¶ 4.)

Ledgers containing accounts with customers and with creditors are referred to as subsidiary ledgers. Only those accounts resulting from posting the sales journal and the purchases journal are opened in the subsidiary ledgers; other personal accounts resulting from sales and purchases of property belonging to the business are opened in the general ledger.

OUTLINE OF ACCOUNTS

§ 164. **The Outline** below includes those accounts required in connection with the recording of transactions in the C. W. Keeland & Co. practice set; references are given to the discussion of those accounts which have not been developed in this or preceding chapters. The classification is the same as that in the first division of this text.

OUTLINE OF ACCOUNTS USED IN THE PARTNERSHIP SET.

Current Assets.....	{	Cash. Merchandise Inventory. Notes Receivable. Accounts Receivable. Accrued Interest Earned (§ 193).
Fixed Assets.....	{	Land. Buildings. Office Equipment. Store Fixtures. Delivery Equipment.
Deferred Charges to Operations	{	Office Supplies. Insurance.
Current Liabilities.....	{	Notes Payable. Accounts Payable. Accrued Wages (§ 197). Accrued Interest Cost (§ 201).
Reserves.....	{	Reserve for Depreciation of Office Equipment. Reserve for Depreciation of Store Fixtures. Reserve for Depreciation of Delivery Equipment. Reserve for Doubtful Accounts.
Capital.....	{	Partner, Capital. Partner, Personal.
Operating Income.....	{	Inventory. Purchases. Purchases Returns and Allowances. Freight In. Sales. Sales Returns. Sales Allowances.
Operating Expense.....	{	Selling Expense. Loss on Doubtful Accounts. Administrative Expense. Building Expense.
Non-operating Income....	{	Interest Earned. Purchases Discount.
Non-operating Expense...	{	Interest Cost. Sales Discount. Loss on Dead Horse (§ 157).

Exercise No. 68, Accounts Receivable Proof.**Sales Journal—May**

2	W. D. Jayne	Springfield	Account	1	\$ 450.00
3	R. W. Starling	St. Louis	"	2	185.50
5	C. H. Watt	Bristol	"	3	79.30
5	R. L. Sutherland	Richmond	"	4	328.40
8	O. R. Martin	Lincoln	"	5	211.15
9	R. W. Starling	St. Louis	"	6	137.50
12	J. A. Moore	Clifton	"	7	50.30
15	R. L. Sutherland	Richmond	"	8	293.35
19	C. H. Watt	Bristol	"	9	45.95
26	R. W. Starling	St. Louis	"	10	203.50
31	Sales, Cr.—	Accounts Receivable, Dr.			\$1,984.95

The student is required (a) to post the individual sales to the customers' accounts in the accounts receivable ledger; (b) to post the total to the Accounts Receivable and Sales accounts; (c) to show the proof of the individual accounts with the Accounts Receivable account.

Exercise No. 69, Accounts Payable Proof.**Purchases Journal—May**

3	Jemison & Co.	City	2% 10 days	1	\$ 895.75
7	Jewell Tea Co.	St. Albans	account	2	50.00
7	Ralph O. Wells	City	account	3	573.20
9	Keaton Grocery Co.	Manchester	3% 10 days	4	1,542.18
14	Tracy & Tracy	Newport	1% 30 days	5	627.35
17	Keaton Grocery Co.	Manchester	3% 10 days	6	956.31
19	Jemison & Co.	City	2% 10 days	7	193.75
23	Tracy & Tracy	Newport	1% 30 days	8	359.40
26	Keaton Grocery Co.	Manchester	3% 10 days	9	1,894.26
28	Jewell Tea Co.	St. Albans	account	10	75.00
31	Purchases, Dr.—	Accounts Payable, Cr.			\$7,167.20

The student is required (a) to post the individual purchases to the creditors' accounts in the accounts payable ledger; (b) to post the total to the Purchases and Accounts Payable accounts; (c) to show the proof of the individual accounts with the Accounts Payable account.

Exercise No. 70, Construction of Charts for Controlling Accounts.

Prepare two charts similar to Illustration No. 70, one for accounts receivable and the other for accounts payable, from the following transactions performed during the month of March by Cary & Burke, a partnership engaged in selling woolen cloth. Use a sheet of paper $8\frac{1}{2} \times 11$ inches for each chart, allowing two inches for the controlling account at the top, six inches for the personal accounts in the center, and two inches for the proof at the bottom. Complete all work with a pen unless permitted to use pencil.

Mar. 1. Purchased from Holbrook & Thoma, City, on account, merchandise, \$1,298.50.

3. Purchased from the Spencer Woolen Mills Co., Taunton, terms, 2% 10 days, merchandise, \$563.70. They prepaid the freight on this shipment, \$4.95, which was added to the amount on the invoice.

(Continued on page 175.)

(Exercise No. 70—Continued from page 174.)

6. Paid Holbrook & Thoma \$750.00 to apply on account.
7. Sold P. M. Penrod, 61 Ward Ave., City, on account, merchandise, \$356.20.
8. Purchased from Holbrook & Thoma, City, on account, merchandise, \$1,925.45.
9. Sold J. S. Henry, 2311 Park Ave., City, on account, merchandise, \$85.00.
10. Received \$200.00 from P. M. Penrod to apply on account.
11. Sold merchandise on account as follows:
J. S. Henry, 2311 Park Ave., City, \$112.50.
O. J. Merrell, 126 Beatty St., City, \$516.60.
Received in part payment of the sale to O. J. Merrell a sixty-day note for \$200.00, signed by D. P. Hart, dated January 25, with interest at 6% from date; allowed Mr. Merrell credit for the interest accrued on the note to date.
13. Paid the Spencer Woolen Mills Co. \$557.38 in full for purchase of the 3d, less discount, and freight on the same.
Sold J. S. Henry, 2311 Park Ave., City, 75c worth of cord which was purchased for use in the store. Charge this to his account.
14. Received \$50.00 from J. S. Henry to apply on account.
Sold O. J. Merrell, 126 Beatty St., City, on account, merchandise, \$141.50.
Received notice of credit from Holbrook & Thoma for \$70.00, value of two bolts of cloth purchased on the 8th and returned per agreement.
16. Purchased from Bowman Bros., West End, on account, merchandise, \$1,809.07.
18. Sold P. M. Penrod, 61 Ward Ave., City, on account, merchandise, \$663.96.
Notified Bowman Bros. of an error of \$2.00 in making the extensions for purchase of the 16th, and received instructions from them to debit their account for this amount.
20. Received \$141.50 from O. J. Merrell in full for sale of the 14th.
Sold merchandise as follows:
O. J. Merrell, 126 Beatty St., City, on account, \$245.15.
M. W. Grinnell, Silvergrove, terms, 2% 10 days, \$1,514.80.
Paid Bowman Bros. \$750.00 to apply on account.
21. Received \$100.00 from J. S. Henry to apply on sale of the 11th, and \$500.00 from P. M. Penrod to apply on account.
Paid Holbrook & Thoma \$2,000.00 to apply on account.
22. Sold J. S. Henry, 2311 Park Ave., City, on account, merchandise, \$125.60.
23. Purchased from the Spencer Woolen Mills Co., Taunton, terms, 2% 10 days, merchandise, \$342.50. They prepaid freight on this shipment, \$3.45, which was added to the amount on the invoice.
O. J. Merrell reported that there was an error of \$1.00 in his favor in the extensions for sale of the 20th. Debit his account with the \$1.00.
24. Sold P. M. Penrod, 61 Ward Ave., City, on account, merchandise, \$62.35.
Allowed J. S. Henry credit for \$35.00, value of one bolt of cloth sold him on the 22d and returned.
25. Sold J. S. Henry, 2311 Park Ave., City, on account, merchandise, \$284.50.
Received credit from the Spencer Woolen Mills Co. for \$15.00 because part of the merchandise purchased from them on the 23d was 40 per cent cotton when our order specified all wool.
Allowed P. M. Penrod credit for \$5.00 on account of an error in our favor in extensions for sale of the 24th.
27. Purchased from Holbrook & Thoma, City, terms, 1% 30 days, merchandise, \$625.85.

(Concluded on page 176.)

(Exercise No. 70—Continued from page 175.)

27. Sold J. S. Henry, 2311 Park Ave., City, 50c worth of stamps which were purchased for use in the store. Charge this to his account.
Received \$12.50 from J. S. Henry in full for sale of the 11th, and \$200.00 from P. M. Penrod to apply on sale of the 18th.
28. Accepted a thirty-day draft for \$500.00, drawn on us by Bowman Bros., to apply on purchase of the 16th.
Received \$315.10 from O. J. Merrell in full for sale of the 11th.
Sold J. S. Henry, 2311 Park Ave., City, on account, merchandise, \$71.40.
Per Mr. Henry's instructions, shipped this merchandise by prepaid express to A. B. Knox, Clinton; debit Mr. Henry's account with \$1.40, cash paid for the express charges.
29. Received a check for \$1,000.00 from M. W. Grinnell in part payment for sale of the 20th; allowed him discount on this payment per terms of the sale.
Sold P. M. Penrod, 61 Ward Ave., City, on account, merchandise, \$427.89.
30. Received \$100.00 from J. S. Henry to apply on account.
Received notice of credit from Holbrook & Thoma for \$33.50, value of one bolt of cloth returned per agreement.
31. Sold M. W. Grinnell, Silvergrove, terms, 2% 10 days, merchandise, \$165.75.
Received \$90.60 from J. S. Henry in full for sale of the 22d, and \$300.00 from P. M. Penrod to apply on sale of the 29th.

QUESTIONS

1. If there is a difference of 27c between the total of the balances in the accounts receivable ledger and the balance of the Accounts Receivable account in the general ledger, how will the bookkeeper locate the error?
2. If an account in the accounts receivable ledger which shows a balance of \$10.00 is ruled, how will the bookkeeper discover the error?
3. If all the accounts in the accounts payable ledger are in balance, how will the Accounts Payable account in the general ledger appear?
4. If a creditor agrees to deliver merchandise purchased and, when this is received, the freight has not been paid, how will the check given the railroad company in payment for the freight be recorded and posted if a controlling account is kept with Accounts Payable?
5. If a customer requests that the freight on a shipment of merchandise sold to him be prepaid and charged to his account, how will the check given the railroad company in payment for this freight be recorded and posted if a controlling account is kept with Accounts Receivable?
6. In what way does the use of a controlling account with Accounts Receivable make the work of the bookkeeper more efficient?
7. Why are special columns provided in books of original entry for controlling accounts?
8. What special columns are required in the cash book and general journal when controlling accounts are kept with Accounts Receivable and Accounts Payable?
9. If a check is given in payment for freight on merchandise purchased and debited to the Freight In account, what effect does this have on the controlling account with Accounts Payable? Give reason for answer.
10. (a) If a creditor by request prepays the freight on merchandise purchased and includes the amount in the purchases invoice, how will the transaction be recorded and posted if a controlling account is kept with Accounts Payable? (b) How will the entry be made and posted if no controlling account is maintained?

Chapter XVIII

BOOKS OF ACCOUNT

The Purpose of this Chapter is to explain and illustrate the use of special columns in the cash book and general journal. The use of special columns is a great time-saver for the bookkeeper, hence should be understood by the student of bookkeeping. The explanation of special columns will enable the student to appreciate the time saved through the use of controlling accounts.

§ 165. **The Books of Original Entry** usually required in connection with the recording of transactions for a mercantile business consist of a purchases journal, sales journal, cash book, and general journal. The purpose of each of these blanks is always the same, but the form of ruling may vary with the particular needs of the business. The books of account required in connection with the exercise at the conclusion of this chapter and the first practice set (C. W. Keeland & Co.) which is separate from this text, are explained and illustrated in the discussion which follows.

§ 166. **The Purchases Journal** is a book of original entry in which purchases of merchandise are recorded (§ 38). The ruling in this book should be such that each purchase may be recorded on one horizontal line; this is usually the same as in Illustrations Nos. 17 and 25. If a record is to be kept of different classes of merchandise purchased or of the merchandise purchased for separate departments, a separate column may be provided for each class or department. If separate accounts are maintained with Purchases and Freight In, and prepaid freight charges are included in the invoice, the amount of the freight should be recorded in a special column for "Freight In" or by a separate entry in the general journal.

§ 167. **The Sales Journal** is a book of original entry in which sales of merchandise are recorded (§ 40). If desired, the carbon copy of each sales invoice may be filed in a binder as one page in the sales journal; when this plan is followed, no ruled sales journal (Illustration No. 20) is necessary. Each customer's account in the accounts receivable ledger is debited with the amount of his purchase as shown by the carbon copy of the sales invoice rendered; at the end of the month the total of all the sales invoices is posted to the debit of the Accounts Receivable account and to the credit of the Sales account in the general ledger.

Each sales invoice should be numbered consecutively, the carbon copy having the same number as the sales invoice. The carbon copies should be filed in a binder in numerical order. Failure to record a sales invoice will not affect the Trial Balance, hence will not be detected unless the customer files complaint. If each sales invoice is numbered consecutively and copies are filed in a binder in regular order, omissions can be detected easily.

§ 168. **The Cash Book.** As explained in § 43, cash received may be recorded in a cash receipts journal and cash paid in a cash payments journal, or cash receipts and payments may be recorded on opposite pages of one cash book, receipts on the left and payments on the right. All amounts received may be entered in one column on the receipts side of the cash book and all amounts paid in one column on the payments side as in Illustrations Nos. 22 and 23, or the transactions may be classified by the use of separate columns. This classification is especially desirable when controlling accounts are maintained with accounts receivable and with accounts payable. The reason for this is that the Accounts Receivable account in the

general ledger is credited with the total of the amounts credited to the accounts in the accounts receivable ledger, and the Accounts Payable account in the general ledger is debited with the total of the amounts debited to the accounts in the accounts payable ledger. If all the amounts affecting the controlling accounts are entered in special columns, the total of all the amounts in each special column can be posted at the end of the month.

Other special columns may be provided for recording transactions affecting cash sales, cash purchases, administrative expense, selling expense, etc. If the cash sales for each of the twenty-six business days in the month are recorded in one amount, twenty-six postings to the Sales account would be required; but if the cash sales for each day are recorded in a special column, the total of this column can be posted in one amount at the end of the month.

Cash				Receipts		
December, 19				Accts Rec	Sales	General
Date	L.F.	Name of Account	Explanation	Cr.	Cr.	Cr.
1		Balance				4696.91
		Schott Decorating Co.	In full of acct.	60.05		
2		Sales	Cash sales		35.75	
3		Sales	" "		72.50	
6		J. H. Weber	In full inv. 1/5	101.75		
8		Sales	Cash sales		90.75	
9		West Side Turn Exch.	On account	1.00		
11		O. H. Roth	In full of acct.	308.38		
12		Sales	Cash sales		68	
15		Notes Receivable	J. H. Weber's note			201.50
		Interest Earned	On above note	570.15	2.7	2.02
16		West Side Turn Exch.	In full inv. 1/1	312.41		4700.43
30		Just Rite Turn Co.	In full of acct.	621.60		
		Accounts Receivable, Cr.		5226.74	560.65	5218.44
		Sales, Cr.		3226.74		3226.74
		Cash, Dr. - 4608.92	(9305.83-4696.91)		860.65	860.65
						9305.83

Illustration No. 71, Receipts Side of Cash Book for Exercise No. 71.

EXPLANATION. The amount of cash received from a customer on account or in full of account is entered in the first column, cash received in payment for cash sales in the second column, and all other amounts of cash received in the third column. Each amount entered in the first column is posted to the credit of the account in the accounts receivable ledger written on the same line with it; the total of this column is posted to the credit of the Accounts Receivable account in the general ledger at the end of the month. Each amount entered in the second column is not posted, but the total of the column is posted to the credit of the Sales account at the end of the month. Each amount entered in the third column is posted to the credit of the account in the general ledger written on the same line with it; the totals of the first and second columns are extended into the third column as in the illustration, and the total of the three columns (less the balance at the beginning of the month) is posted to the debit of the Cash account in the general ledger at the end of the month.

*The break indicates a number of entries omitted.

Illustration No. 71 shows the receipts side of the cash book with three money columns, and Illustration No. 72 shows the payments side of the cash book with the same number of money columns; the use of each column is explained by the printed heading and the explanation of the illustration.

¶ 1. *To Prove Cash.* At the time it is desired to prove cash, each of the three columns on the receipts and payments sides of the cash book is footed in small pencil figures as in Illustrations Nos. 71 and 72. The total of the first and third columns on the payments side deducted from the total of the three columns on the receipts side should be the same as the cash in the bank plus that on hand if it is not all deposited. In practice it is customary to prove cash before depositing the checks and currency in the bank.

Cash				Payments			
December 19							
Date	LF	Name of Account	Explanation	Accounts Payable Dr		Pur. Dis.	General Dr.
				Net Amt.			
1		Selling Expense	Rent, ware, garage ^{100.00 38.50}				138 50
2		Selling Expense	Circulars				33 75
4		Brookville Turn Co.	In full of acct.	343		7	
5		Office Supplies	Stamps				10
		J. R. Gobel, Personal	For personal use				30
		W. H. Mitchell, Personal	" " "				30
15		Freight In	On merchandise				128 76
		C. H. Campbell Turn Co.	In full of inv. 1/15	589 03		1202	
				70 13	74	34 77	1851 01
17		J. R. Gobel, Personal	For personal use				40
31		Freight In	On merchandise				78 76
		Accounts Payable, Dr.		3026 89		56 62	2678 77
				3026 89			3026 89
		Pur. Discount Cr. - Accts Payable, Dr.				56 62	
		Cash Cr.					5705 66
		Balance					3600 17
							<u>9305 83</u>

Illustration No. 72, Payments Side of Cash Book for Exercise No. 71.

EXPLANATION. The amount of cash paid a creditor on account or in full of account is entered in the first column, discount deducted for payment of purchases invoices within the discount period is entered in the second column, and all other amounts of cash paid in the third column. Each amount entered in the first and second columns is posted to the debit of the account in the accounts payable ledger written on the same line with it; the total of the first column is posted to the debit of the Accounts Payable account, and the total of the second column is posted to the credit of the Purchases Discount account and to the debit of the Accounts Payable account in the general ledger at the end of the month. Each amount entered in the third column is posted to the debit of the account in the general ledger written on the same line with it; the total of the first column is extended into the third column as in the illustration, and the total of these two columns is posted to the credit of the Cash account in the general ledger at the end of the month.

*The breaks indicate a number of entries omitted.

§ 169. **General Journal.** When controlling accounts are maintained with accounts receivable and accounts payable, four columns are usually provided in the general journal as in the illustration below.

December 3, 19

Accts Pay Dr.	General Dr.	LF	Name of Accounts and Explanation	LF	General Cr.	Accts Rec. Cr.
	10115		Notes Receivable C. E. Perry & Co. Received in full of account their 30-day note dated Dec. 1, with interest at 6% from date.			10115
		5	Kearns Furniture Co. Pur. Ret and Allow. Returned one chair		8	
	1000	9	Notes Payable Notes Payable Gave the bank our 60 day note in part payment of note for \$2000.00 due today.		1000	
	300	31	Notes Receivable R. R. Phillips Received in full of invoice of Oct 16 his 30 day note dated Dec. 14, with interest at 6% from date			300
	200	31	Selling Expense			
	200		Administrative Expense W. H. Mitchell, Pers. J. R. Gobel, Pers.		200 200	
1283	2419 97		Salary for the month		2483 75	2483 22
1283	1283		Accts. Pay. - Accts Rec.		769 22	769 22
	3702 97				3702 97	

Illustration No. 73, General Journal for Exercise No. 71.

EXPLANATION. The two debit columns are ruled at the left and the two credit columns at the right to avoid errors in posting. The total of the two columns at the left should at all times equal the total of the two columns at the right. At the conclusion of each page these totals should be proved and forwarded; this proof should also be made before posting the totals of the "Accounts Payable, Dr." and "Accounts Receivable, Cr." columns at the end of the month.

*The break indicates a number of entries omitted.

The amount in each transaction which affects the debit side of an account in the accounts payable ledger is entered in the "Accounts Payable, Dr." column; the amount in each transaction which affects the credit side of an account in the accounts receivable ledger is entered in the "Accounts Receivable, Cr." column. This permits the posting of each amount to the proper account in the accounts payable or accounts receivable ledger at the time of entry, and the posting of the total of the special debit column to the Accounts Payable account and the total of the special credit column to the Accounts Receivable account at the end of the month. Illustration No. 73 shows one form of a special column journal.

§ 170. The Ledger. As explained in § 14, the ledger contains all the accounts necessary to show the complete record of the transactions performed. The accounts in the ledger should be arranged in the same order as they will appear on the Balance Sheet and Statement of Profit and Loss. The reason for this is that these reports are prepared from the Trial Balance, and the Trial Balance is made from the ledger. Illustration No. 88 shows a Trial Balance with the correct arrangement of the accounts.

When controlling accounts are maintained with accounts receivable and accounts payable, the individual accounts with customers and creditors should be kept in a separate division of the ledger or in separate ledgers; this will depend on the number of creditors from whom the business buys on account and the number of customers to whom the business sells on account.

§ 171. An Auxiliary Book is one which provides detailed information in regard to the transactions recorded in the books of original entry. Its purpose is to simplify the explanation in the books of original entry and to provide information which would not be available even though the explanation might be given in detail. The notes receivable book, notes payable book, bank check book, and insurance policy record are the auxiliary books discussed and illustrated in this chapter; additional auxiliary books will be explained in subsequent chapters.

§ 172. The Notes Receivable Book is an auxiliary book which contains detailed information in regard to notes and acceptances receivable. The ruling should provide columns for (a) the date, (b) the number, (c) the drawer or endorser, (d) the maker or drawee, (e) the payee, (f) where payable, (g) the date of paper, time, and due date, (h) the amount, (i) the rate of interest, (j) when paid, and (k) remarks. This arrangement permits full information in regard to a note or draft to be written on one horizontal line. Illustration No. 74 shows a popular form of ruling for the notes receivable book.

§ 173. The Notes Payable Book is an auxiliary book which contains detailed information relative to notes signed and drafts accepted by the business. The ruling should provide columns for (a) the date, (b) the number, (c) the drawer or endorser, (d) the maker or drawee, (e) the payee, (f) where payable, (g) the date of paper, time, and due date, (h) the amount, (i) the rate of interest, (j) when paid, and (k) remarks. This arrangement permits full information in regard to a note or draft to be written on one horizontal line. Illustration No. 75 shows a popular form of ruling for the notes payable book.

If desired, the notes receivable and payable books may be used as posting mediums, in which case one is referred to as the notes receivable journal and the other as the notes payable journal; these are explained and illustrated in a succeeding chapter.

§ 174. Insurance Policy Record. The purpose of this book is to provide a record of each insurance policy. The information in it should show (a) the date of the policy, (b) number, (c) name of the insurance company, (d) kind of property insured, (e) amount of the policy, (f) date of expiration, and (g) the premium paid for the policy. Additional columns should be provided for the

(Continued on page 182.)

NOTES RECEIVABLE

Date Received	Out No.	Drawer or Endorser (Draft) (Note)	Maker or Drawee (Note) (Draft)	In Whose Favor (Payee)	Where Payable
Feb. 4	1	C. N. Simmons	R. N. Crowe	C. N. Simmons	2d Natl Bank
May 1	2		C. E. Jones	C. W. Keeland & Co	Security Bank
July 16	3		W. H. Ingram	C. W. Keeland & Co	1st Natl Bk. Pittsburg
Oct. 11	4	Hollingsworth & Kane	Moses A. Palmer	Hollingsworth & Kane	Union Bank
Oct. 11	5		Jameel Bond	C. W. Keeland & Co	Merchants Natl Bank
Nov. 15	6	D. O. Osborne	R. M. Fisher	D. O. Osborne	" " "
Dec. 1	7	C. W. Keeland & Co	Short Bros.	Merchants Natl Bank	" " "
	8		D. R. Robbins	C. W. Keeland & Co	State Natl Bank

Illustration No. 74, Left Page of Notes Receivable Book.

EXPLANATION. Each note receivable or acceptance receivable is recorded on one line at the time it is received; the number given this may be used as the explanation of the entries in the general journal and cash book.

NOTES PAYABLE

Date	Out No.	Drawer or Endorser (Draft) (Note)	Maker or Drawee (Note) (Draft) (Payer)	In Whose Favor (Payee)	Where Payable
Mar. 15	1		C. W. Keeland & Co	Hall, Sipe & Lock Co	Merchants Natl Bank
Apr. 30	2	L. Fowler	" "	Merchants Natl Bank	" " "
May 25	3		" "	" "	" " "
Sept. 10	4		" "	" "	" " "
Nov. 1	5	Capital Grain Co.	" "	Third Natl Bank Denver	" " "
	6		" "	Coal Creek Coal Co	" " "
	7	Western Hay & Grain Co.	" "	Merchants Natl Bank	" " "
Dec. 10	8		" "	W. D. Allen Co	" " "

Illustration No. 75, Left Page of Notes Payable Book.

EXPLANATION. Each note signed by the business and each draft accepted by it is recorded in this book at the time of issue or acceptance; the number given each may be used as the explanation of the entries in the general journal and cash book.

INSURANCE POLICY RECORD.

Date of Policy	No	Name of Company	Property Insured	Amount	Expires	Premium
1922 Jan. 1	69153	Maquaratus Ins Co	Miles & Store Fixt	2000	Jan. 1, 1923	28 80
"	1001	Royal Ins Co	Office Equip.	400	Jan. 1, 1923	576
Mar. 1	0390	Preferred Accident	Delivery Equip	2000	Mar. 1, 1923	70 00
"	17138	Cleveland National	Merchandise	1000	Mar. 1, 1923	14 40
Apr. 1	91769	Aetna Ins. Co.	"	1000	Apr. 1, 1923	144 40
July 1	63111	Phoenix Ins. Co	"	1500	July 1, 1923	21 60
"	111876	Ins Co. of North America	Building	2500	July 1, 1923	36 00

Illustration No. 76, Left Page of Insurance Policy Record.

EXPLANATION. The book is ruled so that all the information desired in connection with each policy may be recorded on one horizontal line. A description of the policy is written on the left-hand page, and the monthly value of the premium which expires is shown in the columns on the right-hand page. Premiums on policies which do not expire during the year in which the policies are issued, are distributed in the next year.

amount which expires during each month; with this information the bookkeeper can easily determine the value of the expired and unexpired insurance at the close of the fiscal period. The insurance which has expired during the year is debited to

NOTES RECEIVABLE

Date of Paper		Time to Run	When Due												Amount	Rate of Interest	When Paid	Remarks
Year	Month and Day		Jan (1)	Feb (2)	Mar (3)	Apr (4)	May (5)	Jun (6)	Jul (7)	Aug (8)	Sep (9)	Oct (10)	Nov (11)	Dec (12)				
192	Jan 20	60	192		21										718.50	6%	Mar. 20 192	Left at bank 4/5
192	May 1	3 mos	192						1						101.76	6%	Aug. 1 192	
192	July 16	6 mos	192	16											300	6%		
192	Oct 10	90 days	192	8											400	4%		
192	Oct 9	30 days	192								8				106.50		Oct 10 192	Left at bank 1/5
192	Nov. 12	60 "	192	11											445.65			
192	Dec 1	60 "	192	30											100			
192	Dec 11	30 "	192	10											100	6%		

Illustration No. 74, Right Page of Notes Receivable Book.

EXPLANATION. The total of the unpaid notes and acceptances should always equal the balance of the Notes Receivable account in the general ledger, and should also be the same as the total of the notes and acceptances in the safe and in the hands of agents for collection.

NOTES PAYABLE

Date of Paper		Time to Run	When Due												Amount	Rate of Interest	When Paid	Remarks
Year	Month and Day		Jan (1)	Feb (2)	Mar (3)	Apr (4)	May (5)	Jun (6)	Jul (7)	Aug (8)	Sep (9)	Oct (10)	Nov (11)	Dec (12)				
192	Mar 15	90 days	192				13								100		Apr 13 192	
192	Apr 30	30 "	192			30									181.11		May 30 192	
192	May 25	6 mos	192								25				1,000.00		Nov. 25 192	
192	Sept 10	4 "	192	10											500	6%		
192	Nov. 1	3 days	192								3				631.87		Nov. 3 192	
192	Nov 10	90 "	192				8								911.88			
192	Nov 15	60 "	192	14											69.51			
192	Dec 10	90 "	192			10									606	6%		

Illustration No. 75, Right Page of Notes Payable Book.

EXPLANATION. When a note or draft is paid, the date should be entered in the "When Paid" column. The total of the unpaid notes and drafts should at all times equal the balance of the Notes Payable account in the general ledger. A proof of this should be prepared monthly.

INSURANCE POLICY RECORD.
Monthly Expirations

Jan.	Feb	March	April	May	June	July	Aug	Sept.	Oct.	Nov	Dec.	Amount Carried Forward
2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	
.48	.48	.48	.48	.48	.48	.48	.48	.48	.48	.48	.48	
		5.83	5.83	5.83	5.83	5.83	5.83	5.83	5.83	5.84	5.84	1168
		1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	240
			1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	360
						1.80	1.80	1.80	1.80	1.80	1.80	1080
						3.00	3.00	3.00	3.00	3.00	3.00	1800

Illustration No. 76, Right Page of Insurance Policy Record.

The distribution by months is shown only for the current year, the amount of unexpired premium being entered in the last column at the right. At the beginning of the next year, this unexpired premium will be distributed in the columns representing the months to which it is applicable. It is necessary to show the nature of the property insured because this determines the operating account affected; thus, expired insurance on delivery equipment and merchandise is debited to Selling Expense, expired insurance on office equipment to Administrative Expense, etc.

the proper operating accounts at the close of the year, at which time the book-keeper should transfer the unexpired insurance to a new page in the insurance policy record. Illustration No. 76 shows a popular form of the insurance policy record.

§ 175. **The Bank Check Book** contains blank checks to be used by the depositor for withdrawing funds deposited in the bank. The check book provided by the bank may contain one, two, or three blank checks to the page. Illustration No. 58 shows a check book with two checks to the page and with the bank account kept on the front of the check stub. The record on the front of the check stub is reconciled with the monthly bank statement as explained in § 80.

Exercise No. 71, Retail Furniture Business.

The Trial Balance given below was taken from the books of Gobel & Mitchell, partners engaged in a retail furniture business. It shows the results of the operations of the business from January 1 to November 30.

Gobel & Mitchell, Trial Balance, November 30, 1922.

Cash (4).....	\$4,696.91	
Notes Receivable (7).....	801.50	
Accounts Receivable (4).....	4,118.76	
Reserve for Doubtful Accounts (4).....	79.31	\$ 101.76
Office Equipment (5).....	650.00	
Reserve for Depreciation of Office Equip. (4).....		30.00
Delivery Equipment (4).....	4,000.00	
Reserve for Depreciation of Del. Equip. (4).....		350.00
Building (4).....	3,500.00	
Land (4).....	2,500.00	
Office Supplies (5).....	329.12	
Insurance (4).....	401.60	
Notes Payable (6).....		2,000.00
Accounts Payable (10).....		3,021.51
J. R. Gobel, Capital (6).....		15,376.50
J. R. Gobel, Personal (7).....	20.00	
W. H. Mitchell, Capital (6).....		15,376.50
W. H. Mitchell, Personal (7).....		30.00
Sales (8).....		37,431.44
Sales Returns (5).....	107.00	
Sales Allowances (5).....	51.89	
1921 Inventory (4).....	18,522.45	
Purchases (7).....	28,187.65	
Freight In (6).....	2,107.56	
Purchases Returns and Allowances (6).....		211.08
Selling Expense (15).....	2,680.40	
Administrative Expense (12).....	1,819.78	
Interest Earned (6).....		42.19
Purchases Discount (5).....		576.50
Commission (5).....		118.50
Interest Cost (6).....	51.20	
Sales Discount (6).....	40.85	
	<u>\$74,665.98</u>	<u>\$74,665.98</u>

Notes Receivable:

Note signed by M. B. Wallace, dated July 12, due in six months, with interest at 6% from date.....	\$600.00
Note signed by J. H. Weber, dated October 15, due in sixty days, with interest at 6% from date.....	201.50

Accounts Receivable:

O. H. Roth (4)	406 Lincoln Ave., City	Oct. 15, 60 days	\$ 311.50
J. H. Weber (5)	530 Craig St., City	Nov. 5, 30 days	101.75
West Side Furn. Exch. (4)	City	Nov. 1, account	412.41
Schott Decorating Co. (4)	Clifton	Nov. 15, account	60.05
C. E. Perry & Co. (4)	702 Pike St., City	Nov. 1, 30 days	101.15
S. A. Burkhardt (4)	609 Market St., City	Nov. 10, 30 days	619.00
Just Rite Furn. Co. (4)	427 Elm St., City	Nov. 15, account	441.60
J. N. Hook & Co. (4)	13 W. 7th St., City	Nov. 20, account	118.70
W. A. Newman (4)	217 Delta Ave., City	Oct. 12, 30 days	217.60
R. R. Philips (4)	Elmwood	Oct. 16, 60 days	300.00
E. E. Frank (4)	Reading	Oct. 2, 60 days	260.00
W. D. Wolfe (4)	2527 Erie Ave., City	Nov. 20, 30 days	1,160.00
F. X. Vance (4)	15 Burnet Ave., City	Oct. 1, 30 days	15.00

Insurance Premiums Paid:

On merchandise, \$205.15; on delivery equipment, \$106.16; on building, \$90.29; total \$401.60.

Notes Payable:

Note in favor of Merchants National Bank, dated October 10, due in sixty days, with interest at 6% from date..... \$2,000.00

Accounts Payable:

C. H. Campbell Furn. Co. (6)	Shelbyville	Nov. 15, 2/30, n/60	\$ 601.05
Hasselbarth-Wheton Co. (4)	Utica	Nov. 12, 2/30, n/60	201.70
The Robt. Mitchell Furn. Co. (4)	Cincinnati	Oct. 25, 60 days	475.00
The Brookville Furn. Co. (4)	Brookville	Nov. 5, 2/30, n/60	350.00
De Luxe Upholstery Co. (4)	Grand Rapids	Oct. 12, 60 days	800.00
Kearns Furniture Co. (5)	High Point	Nov. 30, 2/15, n/30	593.76

On ledger paper open an account with each account shown on the Trial Balance, allowing for each the number of lines indicated by the number in parenthesis after the name of the account. In the explanation column of the Notes Receivable, Notes Payable, and Insurance accounts write the special information in regard to the notes and insurance; the two notes due the business should be entered as separate amounts in the Notes Receivable account. Since there is a controlling account in the general ledger for accounts receivable and another for accounts payable, the individual accounts with customers and creditors will be opened on ledger sheets separate from the ones used for general ledger accounts.

The transactions for December are to be recorded in the purchases journal, sales journal, cash book, and general journal. Loose sheets of paper will be used, ruled similar to Illustrations Nos. 25, 26, 71, 72 and 73. The cash balance shown on the Trial Balance should be entered in the "General" column on the receipts side of the cash book before any transactions are recorded.

December

- Gave the Werk Realty Co. a check for \$100.00 in payment for rent of warehouse for December, and N. R. Hayes Garage a check for \$38.50 in payment for November garage rent and repairs on delivery truck.
Debit Selling Expense for both payments (\$ 152, small type).
Bought from the C. H. Campbell Furniture Co., Shelbyville, terms 2/20, n/60, furniture per purchases invoice No. 156, \$320.00.
Received a check from the Schott Decorating Co. in full of account.
- Sold J. H. Weber, 530 Craig St., City, terms 30 days, 1 davenport, per sales invoice No. 851, \$78.50.
Gave the C. J. Krehbiel Co. a check for \$33.75 in payment for 2,000 circulars.

2. Received \$35.75 for cash sales.
3. Received from C. E. Perry & Co. their note dated December 1, due in thirty days, with interest at 6% from date, in full of account.
Sold C. A. Anderson, Linwood, terms 60 days, 1 dining room suite per sales invoice No. 852, \$525.00.
Received \$72.50 for cash sales.
4. Gave the Brookville Furniture Co. a check in full of account, less discount.
Sold J. N. Hook & Co., 13 W. 17th St., City, terms account, 1 library table per sales invoice No. 853, \$45.00.
5. Withdrew \$70.00 from the bank and paid the following: stamps, for letters, \$10.00; J. R. Gobel and W. H. Mitchell, each \$30.00 for personal use.
Debit Office Supplies for the stamps purchased.
Returned to the Kearn Furniture Co. 1 chair, cost price, \$8.00.
6. Received a check from J. H. Weber in payment for invoice dated Nov. 5.
Sold R. O. Burns, Richmond, terms 30 days, 1 kitchen cabinet per sales invoice No. 854, \$85.00.
Withdrew \$200.00 from the bank to pay the weekly pay roll as follows: office employees, \$50.00; employees in selling department, \$150.00.
8. Bought from the Brookville Furniture Co., Brookville, terms 2/30, n/60, furniture per purchases invoice No. 157, \$675.00.
Received \$90.75 for cash sales.
9. The note due at the bank today and interest on the same was paid as follows: note for \$1,000.00 dated today, due in sixty days, and check for \$1,030.00, balance due on the old note and interest on the new note at 6%.
Received \$100.00 from West Side Furniture Exchange to apply on account.
Transferred from stock to the office, 1 table (cost, \$28.00) and 3 chairs (cost, \$4.00 each).
10. Sold C. E. Herzog, 2034 Eastern Ave., City, terms account, 6 dining room chairs per sales invoice No. 855, \$40.00; Just Rite Furniture Co., City, terms account, 3 wardrobes per sales invoice No. 856, \$180.00.
Bought from the Imperial Furniture Co., Grand Rapids, terms 2/15, n/30, furniture per purchases invoice No. 158, \$520.00.
11. Received a check from O. H. Roth in full of account less 1% discount per special agreement.
Make the entry for the sales discount in the general journal.
Gave the Hasselbarth-Wheton Co. a check in full of account, less discount.
12. Sold S. A. Burkhart, 609 Market St., City, terms 30 days, 1 tea wagon per sales invoice No. 857, \$18.00; C. U. Newton, 102 Front St., City, terms account, 1 upholstered rocker per sales invoice No. 858, \$28.00.
Received \$68.00 for cash sales.
13. Purchased a typewriter from the Underwood Typewriter Co. for \$100.00.
Gave in payment the old typewriter (cost \$80.00, book value \$60.00) and our check for \$50.00.
Sold R. R. Philips, Elmwood, terms 60 days, 1 oak buffet per sales invoice No. 859, \$39.00; H. C. Kern, 253 Earnshaw Ave., City, terms account, 1 5-piece living room suite per sales invoice No. 860, \$1,015.00.
Withdrew \$200.00 from the bank to pay the weekly pay roll.
Gave the Kearns Furniture Co. a check in full of account, less credit for chair returned and less discount.
15. Bought from the Connersville Furniture Co., Connersville, terms 1/15, n/30, furniture per purchases invoice No. 159, \$505.00.
Paid freight on furniture purchased, \$128.76.
Bought from the Pounsford Stationery Co., City, terms account, miscellaneous office supplies, \$28.75.
Enter in the general journal; see note, bottom of page 172.
Received a check from J. H. Weber for note and interest, due on the 14th.

- Gave the C. H. Campbell Furniture Co. a check in payment for invoice dated November 15, less discount.
Prove cash (balance, \$2,182.86).
16. Sold L. A. Sanderson, Louisville, terms net 30 days, 1 dining room suite per sales invoice No. 861, \$475.00.
H. C. Kern claimed that the armchair belonging to the living room suite sold him on the 13th was not up to standard. We allowed him a credit for \$20.00, and put in a claim for this amount against the De Luxe Upholstery Co. from whom this furniture was purchased.
Only one entry is required at this time.
Received a check from the West Side Furniture Co. for balance due on invoice dated November 1.
17. Our attorney reported that the amount due from F. X. Vance is uncollectible. Gave each partner \$40.00 for personal use.
Received \$187.65 for cash sales.
18. Received a credit bill from the De Luxe Upholstery Co. for \$20.00, amount of claim which we filed on the 16th.
Gave C. H. Campbell Furniture Co. check in full of account, less discount. E. E. Frank accepted our 10-day draft in full of account.
19. Gave the De Luxe Upholstery Co. our note dated today, due in thirty days, with interest at 6% from date, in full of account.
Sold J. H. Weber, 530 Craig St., City, terms 30 days, 1 chifforobe, \$70.00, and 1 dressing table, \$60.00, per sales invoice No. 862.
20. Received \$101.60 for cash sales.
Withdrew \$200.00 from the bank to pay the weekly pay roll.
Received a check from S. A. Burkhart in full for invoice dated November 10.
22. Gave the Daily Tribune a check for \$50.00 in payment for advertisement. Bought from Kreimer Bros. & Co., Cincinnati, terms 30 days, furniture per purchases invoice No. 160, \$819.75.
Sold E. E. Frank, Reading, terms 60 days, 1 armchair per sales invoice No. 863, \$26.00.
23. J. H. Weber returned the dressing table sold him on the 19th. Gave him credit for the selling price.
Received a check for \$50.00 from the Delco-Light Co., local distributors of the "Frigidaire", in payment for commission on sales of these iceless refrigerators. These are not carried in stock, but commission is allowed on refrigerators sold.
Gave the Imperial Furniture Co. a check in full of account, less discount. W. H. Mitchell sent to his home 1 library table and 1 rocker. Charge his Personal account with the cost price, \$52.00.
Received \$160.80 for cash sales.
24. Accepted a ten-day draft drawn on us by the Robt. Mitchell Furniture Co. in full of invoice dated October 25.
Received checks as follows: J. H. Weber, in payment for invoice dated December 2; C. E. Herzog, in full of account; H. C. Kern, in full of account less 1% discount per special agreement.
26. Received \$68.00 for cash sales.
Paid \$1.00 for telegram. Debit Administrative Expense.
27. Sold R. O. Burns, Richmond, terms 30 days net, 1 serving table per sales invoice No. 864, \$16.00.
Received \$8.01 from the C. & O. Ry., rebate on freight paid on the 15th.
Withdrew \$418.00 from the bank to pay the following: pay roll, \$200.00; W. H. Mitchell, \$108.00, and J. R. Gobel, \$110.00, for personal use.

29. Received check from E. E. Frank in payment for draft accepted on the 18th. Received \$75.60 for cash sales.
Sold O. H. Roth, 406 Lincoln Ave., City, terms net 60 days, 1 chiffonier per sales invoice No. 865, \$43.00.
30. Bought from Hasselbarth-Wheton Co., Utica, terms 2/30, n/60, furniture per purchases invoice No. 161, \$451.70.
Gave the Connersville Furniture Co. a check in full of account, less discount. Received a check from the Just Rite Furniture Co. in full of account.
31. Received from R. R. Philips his 30-day note dated December 14, with interest at 6% from date, in full of invoice dated October 16.
Paid freight on furniture purchased, \$78.76.
Credit each partner's personal account with \$200.00, salary for the month.
Debit \$ 155 for J. R. Gobel's salary and \$ 152 for W. H. Mitchell's salary.
When the foregoing transactions have been recorded, proceed as follows:
 1. Prove cash (balance, \$3,600.17).
 2. Post from all books of original entry, including the totals of the special columns, and take a Trial Balance. Allow four lines for each new account.
 Retain the Trial Balance and all books of account for use in Exercise No. 80.

QUESTIONS

1. (a) What accounts are debited and credited with the total of the purchases journal at the end of the month when a controlling account is kept with Accounts Payable? (b) What accounts are affected if no controlling account is kept?
2. (a) What accounts are debited and credited with the total of the sales journal at the end of the month if a controlling account is kept with Accounts Receivable? (b) What accounts are affected if no controlling account is kept?
3. Why is the balance of cash on hand at the beginning of the month deducted from the total of all the columns on the receipts side of the cash book before posting the cash receipts for the month?
4. (a) If there are 312 business days during the year and the daily cash sales are recorded in one amount on the receipts side of the cash book each day, how many entries will be required to record and post these cash sales if the Trial Balance is made monthly and a special column is provided for cash sales on the receipts side of the cash book? (b) How many entries would have been required, including the posting, if the special column had not been used?
The term "entry" here refers to the writing of the amount for each cash sale and each total, both in the cash book and the ledger.
5. What entry will be required in the general journal for a \$500.00 note received from S. J. Shook in full of account on January 9 if this note is described as No. 50 in the notes receivable book?
6. How does the bookkeeper prove that the notes payable record is correct as compared with the Notes Payable account?
7. If all cash received is deposited in the bank, what relation does the pass book have to the entries on the receipts side of the cash book?
8. How does the bookkeeper reconcile the bank statement with his bank account on the check stub?
9. What is the purpose of the insurance policy record?
10. Describe in detail the method of proving cash with a cash book ruled similar to Illustrations Nos. 71 and 72.

Chapter XIX

BUSINESS FORMS AND VOUCHERS

The Purpose of this Chapter is to explain and illustrate business forms and vouchers which have not been discussed in previous chapters. The student needs to understand the various business forms which represent transactions in business if he is to record the transactions correctly.

§ 176. **Each Transaction** is represented to the bookkeeper by a business form or voucher, as explained in Chapter IX. When the bookkeeper has recorded the transaction from the facts given in the business form, it is filed for future reference. The purchases order, invoice, receipt, deposit ticket, check, bank draft, cashier's check, money order, draft, and note were discussed and illustrated in previous chapters; others are explained and illustrated in this chapter.

§ 177. **A Business Letter** is a written communication relative to a transaction to be completed or confirming the completion of a transaction. The subject

C.W. KEELAND	TELEPHONE 358	A.D. MUNSON
	C.W. Keeland & Co. DEALERS IN Hay, Grain, Feed and Coal	WEIGHTS GUARANTEED TO BE AS REPRESENTED
CINCINNATI, OHIO, April 7, 192		
Young & Doyle, 1306 Grand Avenue, Cincinnati, Ohio. Gentlemen: Your letter of this date asking for a quotation on Timothy Hay No. 2 in carload lots comes at a very opportune time. We have a car of this hay in our yards at the present time which we will sell for \$16.50 per ton, if you will permit us to unload it at your warehouse immediately. We could not quote this low price if it were necessary to rehandle it, as you will readily understand. Kindly let us have your acceptance of this exceptional offer at once so that we can prepare to move the car to your siding tomorrow. Yours very truly, C. W. KEELAND & CO. per  s/k		

Illustration No. 77, Business Letter.

EXPLANATION. This letter is written on the letterhead of the firm and is a reply to an inquiry for price on hay in carload lots. The letter has been reduced about one-third in size.

matter in the business letter should be explicit and so arranged that the reader may easily interpret its meaning. If the nature of the letter is such that the facts given therein will be needed for the completion of the transaction or the interpretation of the transaction completed, a copy of the reply should be attached to the letter and filed for convenient reference. The answer to the business letter should not be written on the letter itself because this would necessitate its being returned, hence the writer would not have a copy of the letter or the answer in his files. No special form of business letter is necessary, but the arrangement should be such that the facts stated in the letter may be clearly set forth, as in Illustration No. 77.

§ 178. A **Certified Check** is a personal check, payment of which is guaranteed by the bank authorized to pay it; this guarantee is effected by the cashier or other official of the bank writing across the face "Certified" together with the name and official title of the officer making certification. Without certification the holder of a check does not know that it will be paid upon presentation; with certification the holder knows that it will be paid upon presentation. The form of certification is shown in Illustration No. 78. The drawer or the holder of a check may have it certified. Certified checks are used as a bond to guarantee fulfillment of a contract, in settlement of notes payable at a bank other than the one on which the check is drawn, in payment of real estate when purchased, payment of judgment in courts, and in other cases where it is necessary for the holder to know that the check will be paid upon presentation.

Wholesale Dealers
in
General Merchandise

No. 397

June 21, 1910

The Merchant National Bank

Pay to the order of The Merchant National Bank \$365.00

Three hundred and sixty-five and 00/100 Dollars

W. E. Drummond

CERTIFIED
MERCHANT NATIONAL BANK
CASHIER

Illustration No. 78, Certified Check.

§ 179. A **Bill of Lading** is the receipt issued by a transportation company for merchandise or other property received by it for shipment. The Interstate Commerce Commission, which has supervision of all railroads in the United States doing an interstate business, requires three copies of the bill of lading for each shipment, each copy to conform to the requirements imposed by the Commission. These three copies are described as "original", "shipping order", and "memorandum". The size is $8\frac{1}{2} \times 7$ or $8\frac{1}{2} \times 11$. See Illustration No. 79 on pages 191, 192, 193 and 195.

When a shipment is to be made by freight, the shipper prepares the three bills of lading; by the use of carbon paper the three copies may be made at the same time. The three forms are arranged in the following order: (1) original, (2) shipping order, and (3) memorandum. The original and shipping order are presented to the agent of the transportation company with the merchandise to be shipped, and, when this is accepted for shipment, they are signed by him. The agent retains the shipping order and the shipper retains the original. The original should be mailed to the consignee—that is, the one to whom the merchandise was shipped—because the merchandise in transit belongs to him and he holds the transportation company responsible for its delivery. If the merchandise is delivered

Uniform Domestic Straight Bill of Lading Adopted by Carriers, March 15, 1922

UNIFORM STRAIGHT BILL OF LADING

(PRESCRIBED BY THE INTERSTATE COMMERCE COMMISSION)

ORIGINAL--NOT NEGOTIABLE

Shipper's No.

Agent's No.

B. & O. S. W. Railroad

Company

Received, subject to the classifications and tariffs in effect on the date of the issue of this Bill of Lading,
 at Cincinnati, Ohio C. W. Keeland & Co. May 5 192

from C. W. Keeland & Co.
 the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of delivery at said destination, if on its own road or its own water line, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions not prohibited by law, whether printed or written, herein contained, including the conditions on back hereof, which are hereby agreed to by the shipper and accepted for himself and his assigns.

(Mail or street address of consignee--For purposes of notification only.)

Consigned to W. H. Ingram 1873 Elm St.
 Destination Pittsburgh State of Pa. County of Allegheny
 Route Your line Car Initial Car No.

(Indicating carrier)

No. Packages	DESCRIPTION OF ARTICLES, SPECIAL MARKS, AND EXCEPTIONS	*WEIGHT (Subject to Correction)	Class or Rate	Check Column	
60	scks. #1 Corn	6082#			If this shipment is to be delivered to the consignee without recourse on the consignor, the consignor shall sign the following statement: The carrier shall not make delivery of this shipment without payment of freight and all other lawful charges. (See section 7 of conditions.)
60	" #2 Corn	6114#			
60	" Oats	3849#			
					(Signature of consignor.)
					If charges are to be prepaid, write for stamp here, "To be Prepaid."
					Received \$.....
					to apply in prepayment of the charges on the property described hereon.
					Agent or Cashier.
					Per
					(The signature here acknowledges only the amount prepaid.)
					Charges advanced:
					\$.....

*If the shipment moves between two ports by a carrier by water, the law requires that the bill of lading shall state whether it is "carrier's or shipper's weight."

Note--Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property.

The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding..... per.....

C. W. Keeland & Co. Shipper. Agent.

Per L. E. Carr Per

Permanent post-office address of shipper 208 Commerce St., Cincinnati, Ohio.

Illustration No. 79, Original Straight Bill of Lading.

(For back, shipping order and memorandum see pages 192, 193 and 195.)

promptly and in good condition, the consignee may not be required to present the bill of lading, but, if it is received in "bad order" or is lost in transit, the consignee will have to submit the original bill of lading as evidence of his ownership of the merchandise. The transportation company will adjust with the consignee any claims for damages or loss to the merchandise while in transit.

The memorandum is retained by the shipper as evidence of the shipment. In case the merchandise shipped is not delivered promptly, the consignee may request the shipper to ask for a "tracer". This tracer is a written communication

CONTRACT TERMS AND CONDITIONS

Sec. 1. (a) The carrier or party in possession of any of the property herein described shall be liable as at common law for any loss or damage thereto, except as hereinafter provided.

(b) No carrier or party in possession of all or any of the property herein described shall be liable for any loss or damage thereto or damage thereto by fire caused by the act of God, the public enemy, the authority of law, or the act or default of the shipper or owner, or for natural calamity. The carrier's liability shall be that of warehouseman, only, for loss, damage, or destruction of the property occurring after the expiration of the free time allowed by tariffs lawfully on file (such free time to be computed as therein provided) after the receipt of the property at the place of destination or at the port of export (if intended for export) has been duly sent or given, and after the placement of the property for destination, or transfer of delivery of the property to the party entitled to receive it, has been made. Except in case of negligence of the carrier or party in possession (and the burden to prove freedom from such negligence shall be on the carrier or party in possession), the carrier or party in possession shall not be liable for loss, damage, or delay occurring while the property is stopped and held in transit upon the request of the shipper, owner, or party in possession, or for loss, damage, or delay occurring at or near the property, or for country damage to cotton, or from riots or strikes.

(c) In case of quarantine the property may be discharged at risk and expense of owner into quarantine depot or elsewhere, as required by quarantine regulations or authorities, or for the carrier's dispatch at nearest available point in carrier's judgment, and in any such case carrier's responsibility shall cease when property is so discharged, or property may be returned by carrier at owner's expense to shipping point, earning freight both ways. Quarantine expenses of whatever nature or kind upon or in respect to property shall be borne by the owner of the property or be a lien thereon. The carrier shall not be liable for loss of damage occasioned by fumigation or disinfection or other acts required or done by quarantine regulations or authorities even though the same may have been done by carrier's agents, agents, or employees, or for detention, loss, or damage of any kind occasioned by quarantine or the enforcement thereof.

No carrier shall be liable, except in case of negligence, for any mistake or inaccuracy in any information furnished by the carrier, its agents, or officers, as to quarantine laws or regulations. The shipper shall hold the carrier harmless from any expense they may incur, or damages they may be required to pay, by reason of the introduction of the property covered by this contract into any place against the quarantine laws or regulations in effect at such place.

Sec. 2. (a) No carrier is bound to transport said property by any particular train or vessel, or in time for any particular market or otherwise than with reasonable dispatch. Every carrier shall have the right to change of physical conditions of the property at any point en route or en route between the point of shipment and the point of destination. In all cases not prohibited by law, when the carrier in writing advises the shipper of such change, the shipper or he has been agreed upon in writing as the related rates of the property as determined by the classification or tariffs upon which the rate is based, such lower rate plus freight charges if paid shall be the maximum amount to be received, whether or not such loss or damage occurs from negligence.

(b) Claims for loss, damage, or injury to property must be made in writing to the originating or delivering carrier or carrier issuing the bill of lading within six months after delivery of the property for, in case of export traffic, within six months after delivery at port of export, or, in case of failure to make delivery, then within six months (or nine months in case of export traffic) after a reasonable time for delivery has elapsed; provided that if such loss, damage, or injury was due to delay or damage while being loaded or unloaded, or damaged in transit by negligence or negligence, then no notice of claim nor filing of claim shall be required as a condition precedent to recovery. But in case of loss, damage, injury, or delay shall be instituted only within two years and one day after delivery of the property, or in case of failure to make delivery, then within two years and one day after a reasonable time for delivery has elapsed. Provided, that in case the claim on which suit is based was made in writing within six months, or nine months in case of export traffic (whether or not filing of such claim is required as a condition precedent to recovery), suit shall be instituted not later than two years and one day after notice in writing is given by the carrier to the claimant that the carrier has disallowed the claim or any part thereof specified in the notice.

(c) Any carrier or party liable on account of loss or damage to any of said property shall have the full benefit of any insurance that may have been effected upon or on account of said property, so far as this shall not void the policy or policies. Provided, that the carrier reimburse the claimant for the premium paid thereon. Sec. 3. Except where such service is required as the result of carrier's negligence, all property shall be subject to necessary co-storage and handling at owner's cost. Each carrier over whose route cotton or cotton linters is to be transported hereunder shall have the privilege, at its own cost and risk, of converting the same for greater convenience in handling or forwarding, and shall not be held responsible for detentions or unreasonable delays in processing such conversion. Grain to be bulk loaded shall be packed in a tight, properly unlined elevator, may (unless otherwise expressly noted herein, and then if it is not so expressly unlined) be there delivered and placed with other grain of the same kind and grade without respect to weight (and prompt notice thereof shall be given to the consignee), and if so delivered shall be subject to a lien for elevator charges in addition to all other charges hereunder.

Sec. 4. (a) Property not removed by the party within the free time allowed by tariffs, lawfully on file (such free time to be computed as therein provided), after notice of the arrival of the property at destination or at the port of export (if intended for export) has been duly sent or given, and after placement of the property for destination or at the port of export has been made, may be kept in vessel, car, depot, warehouse or place of delivery at the carrier's option, subject to the tariff charges and any other charges lawfully on file. The carrier, on only, or at the option of the carrier, may be removed and stored in a public or licensed warehouse at the place of delivery or other available place, at the cost of the owner, and there held without liability on the part of the carrier, and subject to a lien for freight and other lawful charges, including a reasonable charge for storage.

(b) Where perishable property which has been transported to destination hereunder is refused by consignee or the party entitled to receive it, or said consignee or party entitled to receive it fails to receive it within the time allowed by tariffs, or after being duly sent or given, the carrier may sell the same at public auction to the highest bidder at such place as may be designated by the carrier. Provided, that the carrier shall have first mailed, sent, or given to the consignee notice that the property has been refused or remains unclaimed, as the case may be, and that it will be subject to sale under the terms of the bill of lading if disposition be not arranged within the time specified in the notice, and that where such notice is given, the name of the party to whom consigned, or, if shipped under order, the name of the party to be notified, and the time and place of sale, once a week for two successive weeks, in a newspaper of general circulation at the place of sale or nearest place where such newspaper is published. Provided, that 30 days shall have elapsed before publication of notice of sale after said notice that the property was refused or remains unclaimed was mailed, sent, or given.

(c) Where perishable property which has been transported hereunder to destination is refused by consignee or party entitled to receive it, or said consignee or party entitled to receive it fails to receive it promptly, the carrier may, in its discretion, to prevent deterioration or further deterioration, sell the same to the best advantage at private or public sale. Provided, that if time serves for notification to the consignee or owner of the refusal of the property or the failure to receive it and request for disposition of the property, such notification shall be given, such notice as the exercise of due diligence requires before the property is sold. (d) Where the procedure provided for in the two paragraphs last preceding is not possible, it is agreed that nothing contained in said paragraphs shall be construed to abridge the right of the carrier at its option to sell the property under such circumstances and in such manner as may be authorized by law.

(e) The proceeds of any sale made under this section shall be applied by the carrier to the payment of freight, demurrage, storage, and any other lawful charges and the expense of notice, advertisement, sale, and other necessary expense of carrying and maintaining the property, if proceeds of the sale are not sufficient to pay the same, and should there be a balance it shall be paid to the owner of the property sold hereunder. (f) Property delivered by or taken from a stevedore, wharf, or landing at which there is no regularly appointed freight agent shall be entirely at risk of owner after unloading from cars or vessels or until loaded onto cars or vessels, and, except in case of carrier's negligence, when received from or delivered to such stevedore, wharf, or landings shall be at owner's risk until the cars are attached to and after they are detached from locomotive or train or until loaded into and after unloading from vessel.

Sec. 5. No carrier hereunder will carry or be liable in any way for any documents, specie, or for any articles of extraordinary value not specifically rated in the published classifications or tariffs unless a special agreement to do so and a stipulated value of the articles are adopted between the carrier and owner.

Sec. 6. Every party, whether principal or agent, shipping explosives or dangerous goods, without previous rail written disclaimer to the carrier of their nature, shall be liable for and indemnify the carrier against all loss or damage caused by such goods, and such goods may be warehouse at owner's risk and expense or delivered without compensation.

Sec. 7. The owner or consignee shall pay the freight and storage, if any, and all other lawful charges and expenses of the carrier. The carrier shall not be liable for loss or damage to the goods, or for any loss or damage by railroads that deliver or relinquish possession at destination of the property covered by this bill of lading until all tariff rates and charges thereon have been paid. The consignee shall be liable for the freight and all lawful charges, except that if the consignee stipulates, by signature, in the space provided for that purpose on the back of the bill of lading, that the carrier shall not be liable for loss or damage to the property of such charges and the carrier, contrary to such stipulation, shall make delivery without receiving such payment, the consignee shall not be liable for such charges. Nothing herein shall limit the right of the carrier to require at the time of shipment the prepayment or guarantee of the charges. If upon inspection it is ascertained that the articles shipped are not those described in this bill of lading, the freight charges must be paid upon the articles actually shipped.

Sec. 8. If this bill of lading is issued on the order of the shipper, or his agent, in exchange or in substitution for another bill of lading, the shipper's signature on the front of or back of the bill of lading shall be the statement of value or otherwise, or election of common law or bill of lading liability, or in connection with such prior bill of lading, shall be considered a part of this bill of lading as fully as if the same were written or made in or in connection with this bill of lading.

Sec. 9. (a) If all or any part of said property is carried by water over any part of said route, such water carriage shall be performed subject to all the terms and provisions of, and all the exemptions from liability contained in, the act of the Congress of the United States, approved on February 13, 1893, and entitled "An act relating to the navigation of vessels, etc.," and of other statutes of the United States according carriers by water the protection of limited liability, and to the conditions contained in this bill of lading not inconsistent therewith and with this section.

(b) No such carrier by water shall be liable for any loss or damage resulting from any fire happening to or on board the vessel, or from explosion, burning of boilers or breakage of shafts, or from any other cause not due to the negligence of the carrier.

(c) If the owner shall have exercised due diligence in making the vessel in all respects seaworthy and properly manned, equipped, and supplied, no such carrier shall be liable for any loss or damage resulting from the perils of the labor, sea, or other waters, or from latent defects in hull, machinery, or appliances, whether existing prior to, at the time of, or after sailing, or from collision, stranding, or other accidents or perils, or from infringement of the voyage. And, when for any reason it is necessary, any vessel carrying any or all of the property herein described shall be at liberty to call at any port or ports, in or out of the country, and to load, unload, or transfer, transship, or lighten, to load and discharge goods at any time, to assist vessels in distress, to deviate for the purpose of saving life or property, and for loading and unloading. Except in case of negligence such carrier shall not be responsible for any loss or damage to property if it is necessary or is usual to carry the same upon deck.

(d) General average shall be payable according to the York-Antwerp Rules, 1890, and, as to any matter not therein provided for, according to the law and usage of the port of New York. If the vessel is damaged or lost, or if the cargo is damaged or lost, or if the cargo is seaworthy and properly manned, equipped and supplied, it is hereby agreed that in case of danger, damage or distress resulting from faults or errors in navigation, or in the management of the vessel, or from any latent or other defects in the vessel, her machinery or appliances, or from unseaworthiness, whether existing at the time of shipment or at the beginning of the voyage (including the defects or the unseaworthiness of the vessel, or the negligence of the crew or of the officers, or the negligence of the cargo owners or the cargo shall nevertheless pay damage and any special charges incurred in respect of the cargo, and shall contribute with the shipowner in general average to the payment of any sacrifices, losses or expenses of a general average nature that may be made or incurred for the common benefit or to relieve the shipowner from any common expense.

(e) If the property is being carried under a tariff which provides that any carrier or carrier's party thereof shall be liable for loss from perils of the sea, then as to any carrier or carrier's party thereof the provisions of this section shall be modified in accordance with the tariff provision, which shall be treated as incorporated into the conditions of this bill of lading.

(f) The term "water carriage" in this section shall not be construed as including light-rail or across rivers, harbors, or lakes, when performed by or on behalf of rail carriers.

Sec. 10. Any addition, deletion, or change to this bill of lading which shall be made without the special notation hereon of the agent of the carrier issuing this bill of lading, shall be without effect, and this bill of lading shall be enforceable according to its original tenor.

Illustration No. 79—Continued. Reverse Side of Straight Bill of Lading. (For front of bill of lading, see page 191.)

from the agent who receives the shipment to the agent to whom it is consigned, or the agents at transfer points between the shipping point and destination.

There are two forms of bill of lading, "straight" and "order". The straight bill of lading is used when the merchandise is shipped to the consignee on open account, or when he pays for the merchandise before it is shipped. The order bill of lading is used when the merchandise is shipped by freight collect on delivery; that is, when the consignee is not to have possession until he pays for the merchandise. Illustration No. 79 (pages 191, 192, 193 and 195) shows the three copies required in connection with a straight bill of lading; the order bill of lading is shown in Illustrations Nos. 84 and 85.

Uniform Domestic Straight Bill of Lading Adopted by Carriers, March 16, 1922

THIS SHIPPING ORDER must be legibly filled in, in Ink, in Indelible Pencil, or in Carbon, and retained by the Agent.

Shipper's No.

Agent's No.

2

B. & O. S. W. Railroad

Company

RECEIVED, subject to the classifications and tariffs in effect on the date of the issue of this Shipping Order,

at Cincinnati, Ohio May 5, 1922from C. W. Keeland & Co.
the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this form as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of destination, or to such other place as may be designated by the shipper, or otherwise to deliver the same to the consignee or to such other person as may be designated by the shipper.

EXPLANATION. The shipping order is the same size as the original bill of lading illustrated on page 191; it is not all repeated here because that part not shown is the same as on page 191.

§ 180. A **Credit Bill** is a receipt in invoice form, setting forth in detail the nature of the credit for which it is issued. A credit bill may be rendered for cash, merchandise returned, an allowance, service, or anything of value with which the account of the one to whom it is sent has been credited. The forms provided for credit bills are usually printed with a different colored ink from the sales invoice forms. Illustration No. 80 shows one form of credit bill.

CREDIT BILL**C. W. KEELAND & CO.**

DEALERS IN

**HAY, GRAIN, FEED
AND COAL**

May 7, 19
W. A. Ingram
1872 Elm St.
Pittsburgh!

WE CREDIT YOUR ACCOUNT AS FOLLOWS:

2500# No 2 Corn (per bush)	25				125
Error in bill charged on the 5th					

Illustration No. 80, Credit Bill.

§ 181. A **Telegram** is a communication or message sent by means of a telegraph company. The rate for transmitting a message is based on a minimum number of words and the time of sending. There are four classes of telegrams: the fast day message, day letter, night message, and night letter.

¶ 1. A **Fast Day Message** is accepted by the telegraph company to be sent as soon as received and delivered at its destination as soon as received. The rate is based on ten words with a fixed charge for each word in excess of ten. See Illustration No. 81.

¶ 2. A **Day Letter** is accepted by the telegraph company to be sent some time during the day and delivered when received at its destination. Fast day messages take precedence over day letters both in the sending and the delivering. The rate is based on fifty words with a fixed charge for each word in excess of fifty.

*

POSTAL TELEGRAPH - COMMERCIAL CABLES		CLARENCE H. MACKAY, PRESIDENT TELEGRAM	RECEIVER'S NUMBER CHECK TIME FILED						
CLASS OF SERVICE DESIRED <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">FAST DAY TELEGRAM</td> <td style="text-align: center; padding: 2px;">☒</td> </tr> <tr> <td style="padding: 2px;">NIGHT TELEGRAM</td> <td style="text-align: center; padding: 2px;">☐</td> </tr> <tr> <td style="padding: 2px;">NIGHT LETTERGRAM</td> <td style="text-align: center; padding: 2px;">☐</td> </tr> </table> THE SENDER MUST MARK AN X OPPOSITE THE CLASS OF SERVICE DESIRED; OTHERWISE THE TELEGRAM WILL BE TRANSMITTED AS A FAST DAY TELEGRAM	FAST DAY TELEGRAM	☒	NIGHT TELEGRAM	☐	NIGHT LETTERGRAM	☐	THE POSTAL TELEGRAPH-CABLE COMPANY (INCORPORATED) TRANSMITS AND DELIVERS THIS MESSAGE SUBJECT TO THE TERMS AND CONDITIONS PRINTED ON THE BACK OF THIS BLANK.		
FAST DAY TELEGRAM	☒								
NIGHT TELEGRAM	☐								
NIGHT LETTERGRAM	☐								
SEND the following Telegram, subject to the terms on back hereof, which are hereby agreed to									
Cincinnati, Ohio., May 12, 192									
Short Bros., Cleveland. Number one corn sixty seven cents bushel f. o. b. cars here. C. W. KEELAND & CO.									
PREPAID									

Illustration No. 81, Fast Day Message, ¶ 1.

¶ 3. A *Night Message* is accepted by the telegraph company to be sent during the night and delivered the next morning. The rate, which is based on ten words with a fixed charge for each word in excess of ten, is less than that for the fast day message.

¶ 4. A *Night Letter* is accepted by the telegraph company to be sent during the night and delivered the next morning. The rate, which is based on fifty words with an extra charge for each word in excess of fifty, is the same as that for the fast day message.

WESTERN UNION TELEGRAPH CO. TELEGRAM		Form 1206A Receiver's No. Check Time Filed								
CLASS OF SERVICE DESIRED <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Telegram</td> <td style="text-align: center; padding: 2px;">☐</td> </tr> <tr> <td style="padding: 2px;">Day Letter</td> <td style="text-align: center; padding: 2px;">☐</td> </tr> <tr> <td style="padding: 2px;">Night Message</td> <td style="text-align: center; padding: 2px;">☐</td> </tr> <tr> <td style="padding: 2px;">Night Letter</td> <td style="text-align: center; padding: 2px;">☒</td> </tr> </table> Patrons should mark an X opposite the class of service desired; OTHERWISE THE MESSAGE WILL BE TRANSMITTED AS A FULL-RATE TELEGRAM	Telegram	☐	Day Letter	☐	Night Message	☐	Night Letter	☒	NEWCOMB CARLTON, President GEORGE W. E. ATKINS, First Vice-President	
Telegram	☐									
Day Letter	☐									
Night Message	☐									
Night Letter	☒									
Send the following message, subject to the terms on back hereof, which are hereby agreed to										
Cincinnati, Ohio, May 14, 192										
Anderson, Peck & Fowler, Clinton, N. Y. Fast freight Short Bros., Cleveland, one car number one corn, and W. H. Ingram, Pittsburg, one car number one hay. Show freight rate on bill of lading sent each consignee. Send invoice to us and charge to our account. Advise us freight rate on each shipment. C. W. KEELAND & CO.										
PREPAID										

Illustration No. 82, Night Letter, ¶ 4.

Uniform Domestic Straight Bill of Lading Adopted by Carriers, March 16, 1922

THIS MEMORANDUM

is an acknowledgment that a Bill of Lading has been issued and is not the Original Bill of Lading, nor a copy or duplicate, covering the property named herein, and is intended solely for filing or record.

Shipper's No.

Agent's No.

3

B. & O. S. W. Railroad

Company

RECEIVED, subject to the classifications and tariffs in effect on the date of the receipt by the carrier of the property described in the Original Bill of Lading,

at Cincinnati, OhioMay 5, 1922from C. W. Keeland & Co.

the property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this contract as meaning any person or corporation in possession of the property under the contract) agrees to carry to its usual place of destination.

EXPLANATION. The position of the three forms of the bill of lading is illustrated by pages 191, 193 and 195; these pages contain all the information for the three forms, that part omitted on forms two and three being shown on pages 191 and 192.

§ 182. Statement of Account. It is customary for business concerns to send each customer a statement of his account on the first of the month. The purpose of this statement is to permit the customer to audit his account and report any discrepancies. The information given on the statement is obtained from the ledger account with the customer to whom it is sent. The statement should show (a) the balance due from the customer at the beginning of the month, (b) the date and amount of each debit entry, (c) the date, nature, and amount of each credit entry, and (d) the balance due from the customer at the end of the month.

On the first of the month the business will usually receive a statement from each of its creditors showing the transactions completed during the month. The statement should be compared with the account with the creditor and errors reported promptly.

C. W. KEELAND
FOLIO 2 MONTHLY STATEMENT OF ACCOUNT A. D. HUNTERM April 1, 1922

IN ACCOUNT WITH

C. W. KEELAND & CO.

DEALERS IN

HAY, GRAIN, FEED AND COALINTEREST CHARGED ON ALL BILLS
PAST DUEALL BILLS DUE FIRST OF THE MONTH
FOLLOWING SALE

	Balance		
<u>April 1</u>	Balance per B.O. Rendered	<u>25 00</u>	
<u>10</u>		<u>49 10</u>	<u>77 10</u>

C. W. KEELAND
FOLIO 6 MONTHLY STATEMENT OF ACCOUNT A. D. HUNTERM June 1, 1922

IN ACCOUNT WITH

C. W. KEELAND & CO.

DEALERS IN

HAY, GRAIN, FEED AND COALINTEREST CHARGED ON ALL BILLS
PAST DUEALL BILLS DUE FIRST OF THE MONTH
FOLLOWING SALE

	Balance		
<u>May 1</u>	Balance	<u>82 44</u>	
<u>9</u>	Miss per Bill Rendered	<u>82 81</u>	<u>165 25</u>
<u>1</u>	<u>Exp</u>	<u>65</u>	
<u>25</u>	<u>Cash</u>	<u>96 50</u>	<u>161 50</u>
			<u>2 75</u>

Illustration No. 83, Statements of Account.

EXPLANATION. The statement at the left was prepared from a ledger account showing two debits and no credits and the one at the right from a ledger account showing a balance from a preceding month, a debit and two credits.

Exercise No. 72, Business Letters and Credit Bill.

March 17, Rice Bros., Clinton, returned to the Julian Shoe Company, New York, six pairs shoes which were billed at \$6.20 per pair in invoice of March 1. The shoes were returned because the sizes were not according to specifications in the order. Credit is asked for the value of the shoes.

1. Prepare on a sheet of paper 8½ inches by 11 inches, the letter which Rice Bros. would write, signed "Rice Bros." by your name.

2. Prepare on a sheet of paper 8½ inches by 11 inches, an answer to this letter under date of March 25, acknowledging receipt of the shoes and enclosing credit bill.

Exercise No. 73, Straight Bill of Lading.

July 7, the Evans Bros. Hardware Company, 519 Broadway, Cincinnati, shipped via B. & O. freight to Wolf & Church, 305 Main St., Marysville, Union County, Ohio, 10 kegs nails, 100 lbs. each; 1 case, 12 gal. paint, 125 lbs.; 1 case, 2 doz. picks, 75 lbs.; 1 bundle containing 2 doz. handles, 25 lbs.; 1 case containing 1 doz. shovels, 30 lbs.

Rule a sheet of paper similar to the illustration on page 191, and write on this in the proper position the information required to prepare the bill of lading for this shipment. It will not be necessary to make the two extra copies nor to copy the printing in the illustration.

Exercise No. 74, Statements of Account.

Render a monthly statement for each of the following accounts under date of November 1:

D. P. Hart						Coalgrove				
192						192				
Oct.	10	122.50	Deb	222	50	Oct.	25		C16	100
Norris & Hill						1565 Linton Ave, City				
192						192				
Sept.	10	14.20	Deb	114	20	Sept.	22		C10	100
Oct	4		Deb	155		Oct.	25	Allowance	J5	12 50
	18	69.00	Deb	562	30		25		C16	150
				53	50					262 50

Use blank statements of account which may be purchased from a stationery store, or blank forms used by a local merchant; if neither of these is available, rule paper similar to one of the statements in Illustration No. 83. Use your name as the name of the merchant who is rendering the statements.

QUESTIONS

- (a) Why should a copy of each letter written be retained? (b) Why should this copy be filed? (c) Why should the letter which it answers be filed with it?
- (a) Why does a merchant send each of his customers a statement on the first of the month? (b) What facts are shown on each statement?
- Why are statements of account usually rendered on the first of the month?
- What term is used to describe the receipt issued by a transportation company for merchandise accepted by it for shipment?
- Why are the railroad companies required to use a uniform size blank for issuing receipts for merchandise accepted for shipment?
- What information should be given in the receipt issued by a transportation company for merchandise accepted for shipment?
- Why would the City National Bank require certification of a check drawn on the First National Bank, and presented to it in payment for a note which it holds?
- Why would it be advisable for an individual who wished to open an account with the bank, using a check as his first deposit, to have the check certified before presenting it for deposit?
- Is there any distinction between the terms "business form" and "voucher"?
- Why should the bookkeeper file each business form or voucher which serves as a basis for the bookkeeping record?

Chapter XX

GENERAL INFORMATION

The Purpose of this Chapter is to explain trade customs and bookkeeping procedure with which the student of bookkeeping should be familiar. The student cannot be expected to record correctly transactions involving discount because of prompt payment unless he thoroughly understands the subject of merchandise discount. Each student should know the method of procedure followed by experienced bookkeepers in detecting and correcting errors.

§ 183. Terms on Invoices. When merchandise is sold on account, a definite date of settlement is expressed or implied. If the date of settlement is not expressed, it is usually implied that the amount is due on the first of the following month. When a specific date of settlement is agreed upon, or when discount is allowed for payment within a specified time, this information is written on the invoice. Space is usually provided on the invoice after the word "Terms" for all information in regard to the terms of sale. Thus, "30 days" indicates that the amount of the invoice is due thirty days from the date of the invoice; "2/10, n/30" indicates that the full amount of the invoice is due thirty days from its date, but if the purchaser pays it within ten days from the date, a discount of 2% may be deducted from the amount of the invoice; an invoice rendered September 1 with "5/10, 3/30, n/60" written after "Terms" indicates that the seller has given the buyer sixty days from September 1 for full settlement of the invoice, or will allow a discount of 5% if paid within ten days or a discount of 3% if paid within thirty days from September 1.

§ 184. Payment of Invoice Subject to Discount. When the purchaser pays an invoice subject to discount within the terms of the purchases invoice, he ascertains the amount of the check by deducting from the amount of the invoice the discount mentioned in the terms. Thus, if the terms are 2% 10 days, and the amount of the invoice \$150.00, the check would be written for \$147.00. The one issuing the check debits the firm to whom it is issued for the full amount of the invoice (\$150.00), and credits Cash for the amount of the check (\$147.00) and Purchases Discount for the amount of the discount (\$3.00). The one who receives this check debits Cash for the amount of the check (\$147.00) and Sales Discount for the amount of the discount (\$3.00), and credits the account with the drawer of the check for the full amount of the sale (\$150.00).

If only a part of an invoice subject to discount is paid within the terms of the bill, the same accounts are affected, but it is necessary to divide in order to ascertain the amount with which the creditor's account is debited. Thus, if the amount of the payment is \$98.00 and the terms are 2%, the creditor will be debited with \$100.00 and he in turn will credit his customer with \$100.00. It is necessary to divide because each 98c paid represents a dollar in value.

When an invoice subject to discount is paid in full, multiply the amount of the invoice by the discount mentioned in the terms to ascertain the amount of the discount. When a partial payment is made on an invoice subject to discount, divide the amount of the payment by 100% less the rate of discount; the quotient will be the amount to be debited to the creditor's account; the amount of the discount is ascertained by subtracting the payment from the amount debited to the creditor's account.

§ 185. Collecting Notes and Drafts. The holder of a note or an accepted draft may require the maker or drawee to pay the note or acceptance at his office or at a bank. Where the holder and the maker reside in the same city, it is customary for the holder to leave the note for collection with the bank at which he does business. Where the holder resides in a different city from that of the maker or drawee, the collection may be made through the bank at which the holder does business or a bank in the same city in which the maker or drawee resides. As a rule the maker of a note will give the name of the bank at which he does business as the place of payment, and the drawee of a draft will accept it as payable at the bank which presents it for acceptance. When the name of the bank is specified in the note, the holder should leave the note or draft at this particular bank before the due date. The endorsement of a note or time draft left for collection should be qualified by writing "For collection" as explained in § 85, ¶ 4.

A sight draft is usually made payable to the bank which is to collect it—that is, the bank at which the customer does business or one in the same city. If the collecting bank collects the sight draft, the drawee retains the receipted draft as his receipt and the collecting bank pays the drawer with bank draft or cashier's check (§§ 81 and 82). If the drawee refuses to pay the sight draft, the bank returns it to the drawer.

It is customary for banks to charge a small fee for collecting notes, time drafts, and sight drafts. If this fee is paid by the holder it is an expense to him; the amount may be debited to Administrative Expense or to an account with Collection and Exchange.

§ 186. Exchange is a term applicable to a sight draft drawn by one bank on funds deposited with another bank; it is sometimes referred to as a bank draft. Exchange takes its name from the city in which the bank on which it is drawn is located. A bank draft drawn on a bank in New York City is referred to as "New York exchange"; a bank draft drawn on a bank in Chicago, as "Chicago exchange", etc. When the bank on which the draft is drawn is located in the same country, the draft is designated as "domestic exchange"; when it is located in a foreign country, as "foreign exchange". Domestic exchange is represented by one draft; foreign exchange may be represented by one draft or three; if three drafts are drawn, each is sent by a different route with instructions to the effect that when one is paid the other two are not to be paid.

Exchange is due to the volume of business in the large cities. New York City sells far more merchandise to merchants throughout the world than the merchants throughout the world sell to New York City. By requiring each merchant who buys merchandise from New York to pay for the same with a check on a bank in New York, much time can be saved in the collection of these checks. Since business concerns in New York usually insist on customers paying their obligations with checks on banks in New York, practically every bank in the United States has funds on deposit with a New York bank so that the customers of the bank may be provided with New York exchange when they wish to purchase it for remitting to creditors in New York.

A small fee is usually charged by the bank issuing the exchange to cover the interest and the expense in connection with issuing the exchange. This charge is an expense to the purchaser of the exchange; it is debited to Administrative Expense or to an account with Collection and Exchange.

§ 187. C. O. D. Shipments. When the purchaser agrees to pay for the merchandise on delivery, the terms are designated as "C. O. D.", an abbreviation of "cash on delivery". When the customer to whom the merchandise is sold on C. O. D. terms resides in the same city, collection can be made by the messenger who delivers the merchandise; if the customer resides in another city, it is necessary to have the transportation company collect for the merchandise before making delivery. The postmaster collects for C. O. D. parcel post shipments, the agent of

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UNIFORM ORDER BILL OF LADING

(PRESCRIBED BY THE INTERSTATE COMMERCE COMMISSION)

Agent's No. _____

New York, New Haven & Hartford Railroad **Company**

The property described below, in apparent good order, except as noted (contents and condition of contents of packages unknown), marked, consigned, and destined as indicated below, which said company (the word company being understood throughout this contract as meaning any person or corporation) in possession of the property under the contract hereby agrees to use its usual place of delivery at said destination, if on its own road or its own water line, otherwise to deliver to another carrier on the route to said destination. It is mutually agreed, as to each carrier of all or any of said property over all or any portion of said route to destination, and as to each party at any time interested in all or any of said property, that every service to be performed hereunder shall be subject to all the conditions not prohibited by law, whether printed or written, herein contained, including the conditions on back hereof, which are hereby agreed to by the shipper and accepted for himself and his assigns.

The surrender of this Original ORDER Bill of Lading properly indorsed shall be required before the delivery of the property. Inspection of property covered by this bill of lading will not be permitted unless provided by law or unless permission is indorsed on this original bill of lading or given in writing by the shipper.

(Mail or street address of consignee—For purposes of notification only.)
64 Public Sq., Huntsville, Ark.

Consigned to **ORDER OF C. W. Keeland & Co.**
 Destination **Huntsville** State of **Arkansas** County of **Madison**
 Notify **L. Jeffries & Co.**
 At **Huntsville** State of **Arkansas** County of **Madison**
 Route **Your line**

(Delivering carrier)

Car Initial.

Car No.

*If the shipment moves between two ports by a carrier by water, the law requires that the bill of lading shall state whether it is "carrier's or shipper's weight."

NOTE.—Where the rate is dependent on value, shippers are required to state specifically in writing the agreed or declared value of the property.

The agreed or declared value of the property is hereby specifically stated by the shipper to be not exceeding _____ per _____

C. W. KEELAND & CO. Shipper

Agent.

Per L. E. Carr Per _____

Permanent post-office address of shipper 208 Commerce St., Cincinnati, Ohio.

EXPLANATION. This form is used when a shipment is sent by freight C. O. D.

the express company for C. O. D. express shipments, and the bank for C. O. D. freight shipments. When the terms are C. O. D. and the purchaser resides in another city, the seller should collect part payment; otherwise he may lose the transportation charges both ways should the shipment be refused and returned.

¶ 1. *Freight Shipments.* When a C. O. D. shipment is made by freight, the package is addressed to the shipper at the address of the consignee with a notation to notify the consignee. An "order" bill of lading (§ 179) is signed by the agent

CONTRACT TERMS AND CONDITIONS Sec. 1. (a) The carrier or party in possession of any of the property herein described shall be liable as at common law for any loss thereof or damage thereto, except as hereinafter provided. (b) No carrier or party in possession of all or any of the property herein described shall be liable for any loss thereof or damage thereto or delay caused by the act of God, the public enemy, or any other cause beyond their control. (c) Where perishable property which has been transported hereunder to destination is refused by consignee or party entitled to receive it, or said consignee or party entitled to receive it shall fail to receive it promptly, the carrier may, in its discretion, to prevent deterioration or further deterioration, sell the same at public or private sale.	ENDORSEMENTS C. W. KEELAND & CO Per <i>W. C. Can</i>
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Illustration No. 85, Reverse Side of Order Bill of Lading.

EXPLANATION. This shows the back of the order bill of lading with the endorsement necessary. The shipping order and memorandum are the same as those illustrated at the top of pages 193 and 195, hence are not repeated. That part of the conditions not shown in this illustration is the same as the conditions for the straight bill of lading on page 192.

of the receiving railroad and the merchandise forwarded to its destination, where it will be held by the agent of the railroad until the consignee presents the original bill of lading. The shipper must get this original bill of lading into the possession of the consignee, but at the same time he must secure payment for the merchandise before it is delivered; this is effected through a bank. The seller draws a sight draft for the amount of the sale, attaches it to the original bill of lading, and sends these for collection to a bank in the city where the purchaser resides. When the bank receives this draft and bill of lading, it notifies the drawee, who secures the bill of lading by paying the draft. The purchaser presents the original bill of lading to the agent of the railroad and receives the merchandise. The bank remits the amount of the draft to the seller. If the purchaser does not pay the draft, it will be returned to the drawer (seller) and the merchandise will remain in the possession of the agent until he receives instructions from the seller as to its disposition; this accounts for the suggestion that the seller collect a part of the value of the merchandise before making shipment.

The "order" and "straight" bills of lading are discussed in § 179. The form is practically the same except that the order bill of lading contains space on the back for the endorsement, as it is necessary for the shipper to endorse it in order to transfer title to the consignee.

¶ 2. *Express Shipments.* When a C. O. D. shipment is made by express, the express company will not deliver the merchandise until the purchaser pays the charges and value of the shipment. The sales invoice is not sent to the customer but is enclosed in an envelope (Illustration No. 86), which is attached to the package. When the merchandise arrives at its destination the express company agent will hold it until the consignee pays the amount of the invoice in the envelope. After the consignee has paid the amount of the invoice, he secures possession of the merchandise; the express company agent places in the envelope an express money order (Illustration No. 64) for the amount of the collection and returns the envelope to the shipper. The shipper should specify that the consignee is to pay the charges for issuing the money order sent in payment for the C. O. D. shipment; otherwise, the express agent issuing the same will deduct the amount from the amount of the invoice.

¶ 3. *Parcel Post Shipments.* When a C. O. D. shipment is made by parcel post, a special ticket provided by the Post Office Department is attached to the

IF NOT DELIVERED IN THREE DAYS. RETURN TO
TREASURER
Southeastern Express Company
(INCORPORATED)
ATLANTA, GA.

FORM No. 15

PLACE
POSTAGE
STAMP
HERE

C. W. Keeland & Co.

208 Commerce St.

Cincinnati

Ohio

SHIPPER—Mark shipment "C.O.D." and amount to be collected, enclosing invoice in this envelope and attach securely to shipment.

FOR GOODS SHIPPED C.O.D.

TO B. Jackson

Amount of C. O. D. \$ 91.09

Charge for Collecting and return of proceeds \$

Are above charges to be collected from consignee YES

Unless otherwise instructed, destination office will so collect.

Shippers Invoice Number 16789

188 Wayne Blvd.

Sumter, S. C.

Cincinnati, O. June 6 19

(Waybilled From) (Date)

POSTMASTER--Please forward to address on reverse side

SHIPPER'S SPECIAL INSTRUCTIONS

AGENT—Agent at shipping point must see that shipper's name and address are plainly written or printed on the reverse side and Agent at destination must pass pen lightly through name of consignee before mailing proceeds in this envelope. Examine invoice enclosed and follow any special instructions of shipper thereon or in this envelope not in conflict with the Company's rules.

FOR RULES GOVERNING C. O. D. SHIPMENTS REFER TO OFFICIAL CLASSIFICATION AND COMPANY'S STANDING RULES AND INSTRUCTIONS.

Illustration No. 86, Both Sides of C. O. D. Express Envelope.

UNITED STATES MAIL
C. O. D. PARCEL NUMBER

No. 2356
U. S. Mail—C.O.D. Parcel

Postmark of (Postmark of)

Date of issue

Parcel Delivered by

(Delivery Office) (MAILING OFFICE) (MAILING OFFICE)

SENDER will FILL IN spaces BELOW—
Postmaster at delivery office will collect from addressee.

CHARGES (To be remitted to Sender by M.O.) \$ 57 89 M. O. FEE (See Schedule of Fees on Back.)

From C. W. Keeland & Co.
Street and No. 208 Commerce St.
City or Town Cincinnati (State) Ohio

To J. R. Noble
Street and No. 1175 Elm St.
City or Town Canton (State) Ohio

POSTMASTER, Delivery Office: Delivering employee must be authorized. Two persons may receive the parcel. If parcel is delivered to unauthorized person, the carrier will not be responsible. If parcel is delivered to unauthorized person, the carrier will not be responsible. If parcel is delivered to unauthorized person, the carrier will not be responsible.

Date of Delivery

Received the parcel described on the front of this tag in good condition

(Signature of Addressee)

By (Person receiving parcel and signing for addressee)

SCHEDULE OF N. O. FEES:

For Orders From \$ 0.01 to \$ 2.50	3 cents.
From \$ 2.51 to \$ 5.00	5 cents.
From \$ 5.01 to \$ 10.00	8 cents.
From \$ 10.01 to \$ 20.00	10 cents.
From \$ 20.01 to \$ 30.00	12 cents.
From \$ 30.01 to \$ 40.00	15 cents.
From \$ 40.01 to \$ 50.00	18 cents.
From \$ 50.01 to \$ 60.00	20 cents.
From \$ 60.01 to \$ 75.00	25 cents.
From \$ 75.01 to \$ 100.00	30 cents.

Illustration No. 87, Both Sides of Tag for C. O. D. Parcel Post Shipment.

package. This ticket shows the amount to be collected before delivery is made. When the merchandise arrives at its destination, the postmaster at that point will not deliver it until the consignee pays the amount mentioned on the ticket. When the consignee pays for the merchandise, the postmaster will send the shipper a post-office money order for the amount of the sale.

§ 188. Method of Recording C. O. D. Shipments. When the terms are C. O. D., the sale is recorded in the sales journal in the same manner as a sale on account. The amount of the sale may be debited to the account with the customer or to a "C. O. D. Shipments" account. Since "C. O. D." applies to the terms of payment in the same manner as "3/10, n/30" applies to the terms of payment, it is the better practice, especially where the sales are made to regular customers, to record the amount of the sale in the account with the customer. When this plan is followed, it is necessary to keep a supplementary record of the C. O. D. shipments so that the bookkeeper may know at all times that the proper attention has been given to each shipment. When the value of C. O. D. shipments is recorded in an account with "C. O. D. Shipments", the name of the customer is written in the explanation column on the debit side of this account; when remittance is received for the shipment, the entry is made on the same line on the credit side. Where an account is kept with C. O. D. Shipments, it is best to have separate accounts with those made by freight, express, and parcel post, in which case the captions of the accounts may be "C. O. D. Freight Shipments", "C. O. D. Express Shipments," and "C. O. D. Parcel Post Shipments"; the caption may be the name of the railroad company, the local express company, or the post office.

§ 189. How to Correct Errors. Errors in recording transactions in a book of original entry or in posting should not be made, but when they occur, must be corrected. Errors in recording transactions in a book of original entry should be corrected by an entry in the general journal; errors in posting may be corrected by drawing a red line through the figures only and writing the correct amount above. Do not erase in a book of original entry.

§ 190. Arrangement of Accounts in the Ledger. The accounts in the ledger are arranged in the same order as they appear on the Balance Sheet and Statement of Profit and Loss to facilitate the preparation of these reports. This arrangement is shown in the illustrations of the ledger in this text and in the outline of accounts needed to record the transactions in the practice sets. Accounts with customers should be kept in an accounts receivable ledger and controlled by the Accounts Receivable account in the general ledger. Accounts with creditors should be kept in the accounts payable ledger and controlled by the Accounts Payable account in the general ledger.

§ 191. Index to the Ledger. The position of each account in a ledger should be indicated in the index so that the bookkeeper may readily locate it. The method of indexing will depend entirely upon whether a loose-leaf or bound ledger is used. No matter which form of ledger is used, the bookkeeper should indicate the location of a new account in the index at the time the account is opened; otherwise, he will be sure to have trouble locating it when the information recorded in the account is needed. The purpose of the discussion at this time is to impress the student with the importance of indexing at the time accounts are opened and not to describe the various forms of ledgers in use.

§ 192. Detecting Errors in a Trial Balance. If the Trial Balance does not balance it indicates an error in (1) posting, (2) additions or forwarding in the books of original entry, (3) additions or subtractions in the ledger, (4) transferring the amounts from the ledger to the Trial Balance, or (5) addition of the Trial Balance. The error can be detected only by checking the work; the process of checking should be the reverse of its completion—that is, (1) addition of the Trial Balance, (2) amounts transferred from the ledger to the Trial Balance, (3) additions and subtractions in the ledger, (4) additions and forwarding in the books of original entry, and (5) posting. The checking should be indicated by check marks similar to those in the illustrations of the books of original entry and ledger for the first month in the Model Set, Chapter VI.

The careful bookkeeper, before checking, will look for an amount equal to the error or to one-half the error, and ascertain if the amount is divisible by nine. Failure to post an amount equal to the error would result in the amount of the error. Posting an amount equal to one-half of the error, to the wrong side of an account, would result in the amount of the error. If the amount of the error is a multiple of nine (divisible by nine without a remainder), it may indicate transposed figures. Any number composed of two figures, the difference between which is the same as the result of dividing the error by nine, when transposed, will give the amount of the error. Thus, if the Trial Balance is out of balance 45c, it may indicate that an amount of 5c has been posted as 50c, 16c as 61c, 27c as 72c, 38c as 83c, 49c as 94c, 50c as 5c, 61c as 16c, 72c as 27c, 83c as 38c or 94c as 49c. Forty-five divided by nine equals five; the difference between the first and second figures in each amount in the preceding sentence is five.

Exercise No. 75, Recording Transactions Involving Merchandise Discount.

The following transactions relative to purchases and sales of merchandise and payments and receipts thereon were completed during the months of April and May. Record these transactions in journal form (on a sheet of journal paper), post to the ledger and take a Trial Balance.

- April 1. Bought from the L. H. Mabley Mfg. Co., Kalamazoo, merchandise per purchases invoice dated March 25, \$162.95; terms, 3/10, n/30.
3. Sold M. D. Puterbaugh, City, merchandise per sales invoice of this date, \$429.86; terms, 4/10, n/30.
4. Sent the L. H. Mabley Mfg. Co., check for purchases invoice of March 25, less discount.
10. Bought from the Union Mfg. Co., Chicago, merchandise per purchases invoice dated April 7, \$529.48; terms, 3/30, n/60.
13. Received a check from M. D. Puterbaugh for \$200.00 to apply on sales invoice of April 3.
30. Bought from Anderson & Mumford, Crawfordsville, merchandise per purchases invoice dated April 28, \$1,642.87; terms, 5/10, 3/30, n/60.
- May 4. Sold Charles Crawford, City, merchandise per sales invoice of this date, \$629.52; terms, 3/10, 2/30, n/90.
5. Sent the Union Mfg. Co., check in full for invoice of April 7.
6. Sent Anderson & Mumford check for \$800.00 to apply on purchases invoice dated April 28.
10. Sold Wilbur York, City, merchandise per sales invoice of this date, \$1,263.48; terms, May 20—2/10, 1/30, n/60.
14. Received a check from Charles Crawford for \$200.00 to apply on sales invoice of May 4.
25. Bought from Davis Bros., Akron, merchandise per purchases invoice dated May 20, \$2,992.50; terms, 4/10, 2/30, n/90.
26. Sent Anderson & Mumford a check for \$776.74 in full of account.
28. Sent Davis Bros. a check for \$1,000.00 to apply on purchases invoice dated May 20.
31. Received check for \$150.00 from Charles Crawford to apply on sales invoice of May 4.

Exercise No. 76, C. O. D. Freight Shipment.

December 10 the Whitaker Paper Company received an order from Marsh Bros. of Atlanta for five dozen boxes of Christmas stationery to be shipped by freight, with instructions to rush the shipment and send C. O. D. unless it was desired to extend credit. The Whitaker Paper Company had had no previous dealings with Marsh Bros., and as it was a rush order, they sent it C. O. D. The sale was entered on December 11 as sales invoice No. 36475, total \$82.50, the price being \$16.50 per dozen. The draft and bill of lading were sent to the Atlanta National Bank for collection.

Prepare (a) the sales invoice; (b) the original bill of lading; (c) the draft payable at the Atlanta National Bank; and (d) show the marking on the case. Use blank paper ruled similar to Illustrations Nos. 50, 68, and 84 unless blank forms are available; the original only of the bill of lading need be prepared.

Exercise No. 77, Arrangement of Accounts.

Arrange the following accounts in the order in which they should appear in the ledger as explained in §§ 164 and 190.

J. W. Macon, Capital	Notes Payable	Selling Expense
Office Equipment	Purchases Discount	Interest Earned
Interest Cost	Cash	Inventory
Reserve for Depreciation of	Delivery Equipment	Notes Receivable
Delivery Equipment	Sales Returns	J. B. Hill, Capital
Accounts Receivable	Freight In	Sales Allowances
J. W. Macon, Personal	J. B. Hill, Personal	Purchases Returns
Administrative Expense	Purchases	and Allowances
Sales	Sales Discount	Reserve for Depreciation of
Reserve for Doubtful	Accounts Payable	Office Equipment
Accounts		

QUESTIONS.

1. What is the least amount that will be required to pay an invoice of \$1,651.75, terms, 3/10, 2/30, n/60?
2. What is the amount of the debit for a payment of \$362.50 on an invoice, terms, 3/10, n/60, the payment being made within ten days from the date of the invoice?
3. (a) What is the due date of an invoice with the terms, Feb. 1, 1922, 3/10, n/60?
(b) When should check be sent in payment of this invoice in order to secure the discount?
4. Why is it advisable for the drawer of a draft to make it payable at the bank where the drawee does business and send it to this bank for collection?
5. What procedure should John Smith of Chicago follow if he wishes to collect a note signed by Henry Jones of Atlanta, Georgia, made payable at the Atlanta National Bank?
6. Why do merchants and manufacturers in New York City require their customers to send checks payable on New York banks in payment for merchandise sold them?
7. Why will a bank in Dallas, Texas, accept a check payable on a bank in New York at its face value?
8. What will be the marking on a case of merchandise shipped by freight C. O. D. to A. R. Dodd, Hope, Ark., by Roberts Bros., Decatur, Ill.?
9. How does the seller collect for a C. O. D. freight shipment?
10. Why is it advisable to arrange the accounts in the ledger in the same order as they appear on the Balance Sheet and Statement of Profit and Loss?

Chapter XXI

ACCRUALS AND DEFERRED ITEMS

The Purpose of this Chapter is to explain the method of recording those assets and liabilities which are not shown by accounts at the close of the fiscal period. These are usually referred to as accrued assets, accrued liabilities, deferred charges to operation, and deferred credits to income. Accrued assets result from obligations owed to the business on account of income earned during the current fiscal period but not due and payable until a succeeding fiscal period. Accrued liabilities result from services rendered to the business during the current fiscal period but not due and payable until a succeeding period. Deferred charges to operation refer to property or services purchased by the business during the current fiscal period which will not be consumed until a succeeding fiscal period. Deferred credits to income refer to the income which has been received during the current fiscal period but which will not be earned until a succeeding fiscal period.

§ 193. **Accrued Interest Earned** is an accrued asset resulting from accrued interest on interest-bearing notes which are not due and payable until a succeeding fiscal period, and on past-due notes and accounts receivable. This may be illustrated as follows: a note for \$900.00, dated October 2, due in four months, with interest at 6% from date, is accepted from a customer in payment of his account. At the close of the fiscal period, December 31, this note is worth \$913.50 (face of note \$900.00, interest \$13.50). When the Balance Sheet is prepared on December 31, the book value of the note, as recorded in the Notes Receivable account, is only \$900.00 because the interest has not been recorded, it being customary not to record interest until collected. If the Balance Sheet is to show the true value of the assets belonging to the business and the true proprietorship of the business, it will be necessary to record the \$13.50 interest and to show it on the Balance Sheet as a part of the assets. Interest accrued on notes receivable and accounts receivable is recorded at the close of the period in an account with **Accrued Interest Earned**.

ACCRUED INTEREST EARNED ACCOUNT

§ 194. **The Purpose of this Account** is to show the asset resulting from accrued interest on notes receivable and accounts receivable. This account is opened only at the close of the fiscal period.

*Debit the Accrued Interest
Earned Account:*

¶ 1. At the close of each fiscal period, for the amount of accrued interest on notes receivable and accounts receivable.

*Credit the Accrued Interest
Earned Account:*

¶ 2. After the ledger is closed, for the amount shown on the debit side; or for the amount of accrued interest when collected in the next fiscal period.

¶ 3. *The Balance of the Accrued Interest Earned Account* shows the amount due the business for interest which has not been collected; it is one of the current assets of the business and is shown as such on the Balance Sheet (Ill. No. 92).

§ 195. **Entry to Record Accrued Interest Earned.*** As explained in the preceding discussion, the amount of the accrued interest earned should be shown on the Balance Sheet in order to show the true assets and true proprietorship of the business. Since the facts shown on the Balance Sheet should also be recorded in accounts on the ledger, it is necessary to record the amount of the accrued interest in the general journal and post it to the proper account in the ledger; this entry is usually referred to as one of the adjusting entries (§ 46, ¶ 4) because its purpose is to record in an account the value of an asset which does not appear on the ledger. Applying this to the accrued interest in § 193, the record in the general journal will be as in the illustration below.

December 31, 192

Accrued Interest Earned	13 50	
Interest Earned		13 50
Accrued interest on notes receivable		

Recording the asset Accrued Interest Earned increases the income from interest the same as if cash had been received for the interest. When this entry is posted, the \$13.50 will appear as an asset on the debit side of the Accrued Interest Earned account, and as an income on the credit side of the Interest Earned account.

§ 196. **Entry to Close the Accrued Interest Earned Account.** The accrued interest earned may be allowed to remain in the Accrued Interest Earned account until the interest is collected, or the balance of this account may be transferred to the Interest Earned account by an entry in the general journal after the ledger is closed. The latter practice is possibly the better because it avoids the necessity of separating accrued interest earned from interest earned when notes or accounts affected by the accrued interest are collected in a subsequent period.

Referring to the illustration in § 195, if the accrued interest is allowed to remain in the Accrued Interest Earned account until the note is collected on February 2, the entry, in journal form, will be as in the illustration below.

February 2, 192

Cash	918	
Notes Receivable		900
Interest Earned		450
Accrued Interest Earned		13 50
Received cash in payment for note and interest due today.		

*NOTE. Interest collected in advance which will not be earned until the next fiscal period is a deferred credit to income (§ 210), and at the close of the fiscal period requires an entry in which Interest Earned is debited and Prepaid Interest Cost credited. Interest paid in advance which is applicable to the next fiscal period is a deferred charge to income, and at the close of the fiscal period requires an entry in which Prepaid Interest Cost is debited and Interest Cost credited. These entries affecting the Interest Cost and Interest Earned accounts are not illustrated because they occur less frequently than accrued interest, it being customary in business to pay for the use of the money at the conclusion of the contract.

If the balance of the Accrued Interest Earned account is transferred to the Interest Earned account after the ledger is closed, the entry will be as in the illustration below.

December 31, 192

<i>Interest Earned</i>	<i>13 50</i>	
<i>Accrued Interest Earned</i>		<i>13 50</i>
<i>To transfer the balance of the</i>		
<i>Accrued Interest Earned account</i>		
<i>to the Interest Earned account</i>		

When the note is collected on February 2, the entry, in journal form, will be as in the illustration below.

February 2, 192

<i>Cash</i>	<i>9 18</i>	
<i>Notes Receivable</i>		<i>9 00</i>
<i>Interest Earned</i>		<i>18</i>
<i>Received cash in payment for</i>		
<i>note and interest due today</i>		

A comparison of the Interest Earned account after each entry is posted, shows that the final results are the same. In the first case, the Interest Earned account is credited with \$4.50; in the second case, the Interest Earned account is debited with \$13.50 and credited with \$18.00, showing a net credit balance of \$4.50.

§ 197. **Accrued Wages** is an accrued liability which results when the close of the fiscal period occurs on a date different from the usual time of paying employees. This may be illustrated as follows: the weekly pay roll for Jenkins Bros., retail merchants, is \$600.00, payable at the close of business on Saturday of each week. The end of the fiscal period is on Wednesday, December 31. If the Balance Sheet and Statement of Profit and Loss are to show the true results, the bookkeeper will either pay the employees on Wednesday evening, or show the \$300.00 due them as a liability on the Balance Sheet and as an increase to the operating cost on the Statement of Profit and Loss. Since the employees are not concerned with the closing of the books and will not expect their wages before the usual time, it is customary to show the amount due the employees at the close of the fiscal period in an account with Accrued Wages.

ACCRUED WAGES ACCOUNT

§ 198. **The Purpose of this Account** is to show the amount due employees at the close of the fiscal period because the end of the fiscal period falls on a date different from that on which the pay roll is paid. This account is opened only at the close of the fiscal period.

Debit the Accrued Wages Account:

- ¶ 1. After the ledger is closed for the amount shown on the credit side; or for the accrued wages when paid.

Credit the Accrued Wages Account:

- ¶ 2. For the amount due employees at the close of the fiscal period.

¶ 3. *The Balance of the Accrued Wages Account* shows the amount due employees at the close of the fiscal period; it is a current liability and is shown as such on the Balance Sheet (Illustration No. 92).

§ 199. **The Entry to Record Accrued Wages** is made in the general journal at the close of the fiscal period; it is regarded as one of the adjusting entries (§ 46, ¶ 4) because it places in the ledger a liability which has not been recorded. Referring to the pay roll for Jenkins Bros. mentioned in § 197 (assuming that \$100.00 is for office employees, \$50.00 for the buying department, and \$150.00 for the selling department), the entry in the general journal necessary to record this liability will be as in the illustration below.

December 31, 192

<i>Buying Expense</i>	<i>50</i>		
<i>Selling Expense</i>	<i>150</i>		
<i>Administrative Expense</i>	<i>100</i>		
<i>Accrued Wages</i>		<i>300</i>	
<i>Three days wages due employees</i>			

When this entry is posted, the \$300.00 will appear on the credit side of the Accrued Wages account and the amounts applicable to the Buying Expense, Selling Expense, and Administrative Expense accounts will appear on the debit side of these accounts; consequently the ledger will show a liability and an operating cost of \$300.00.

§ 200. **Entry to Close the Accrued Wages Account.** The Accrued Wages account may be allowed to remain open until the wages have been paid and then debited with the amount for which it is credited, or the balance may be transferred to the operating accounts affected, after the ledger is closed. Since the pay roll will be paid in a few days after the books are closed, the amount is usually allowed to remain in the Accrued Wages account and this account closed when the pay roll is paid. Referring to the pay roll in § 197 and the entry in § 199, the required entry on Saturday, January 3, when the pay roll is paid, will be as in the illustration below.

January 3, 192

<i>Accrued Wages</i>	<i>300</i>		
<i>Buying Expense</i>	<i>50</i>		
<i>Selling Expense</i>	<i>150</i>		
<i>Administrative Expense</i>	<i>100</i>		
<i>Cash</i>		<i>600</i>	
<i>Pay Roll for week ending January 3</i>			

When this entry is posted, the Accrued Wages account will be in balance and only one-half of the pay roll for the week will be debited to the expense accounts, this being that part of the pay roll for the week which is applicable to the next fiscal period.

If the Accrued Wages account is closed after the ledger is closed, the post-closing entry necessary to transfer the balance of the Accrued Wages account to the proper operating accounts will be as in the illustration below.

December 31, 192

<i>Accrued Wages</i>	<i>300</i>		
<i> Buying Expense</i>		<i>50</i>	
<i> Selling Expense</i>		<i>150</i>	
<i> Administrative Expense</i>		<i>100</i>	
<i>To close the Accrued Wages account.</i>			

When this entry is posted, the Accrued Wages account will be in balance and the amount of the accrued wages applicable to each of the expense accounts will appear on the credit side of that account. When the pay roll is paid on January 3, the entry, in journal form, will be as in the illustration below.

January 3, 192

<i>Buying Expense</i>	<i>100</i>		
<i>Selling Expense</i>	<i>300</i>		
<i>Administrative Expense</i>	<i>200</i>		
<i> Cash</i>		<i>600</i>	
<i>Pay Roll for week ending January 3</i>			

When this entry is posted, the full pay roll for the week will appear on the debit side of the expense accounts to which it is applicable, but there will be a credit to each of these accounts which makes the balance the same as when the Accrued Wages account is closed at the time the pay roll is paid. The student should post these entries and compare the results.

§ 201. **Accrued Interest Cost** is an accrued liability resulting from the accrued interest on interest-bearing notes issued by the business prior to the close of the fiscal period but not due and payable until a succeeding fiscal period, and on past-due notes and accounts payable. This may be illustrated as follows: December 1, the business borrows \$5,000.00 from the bank on its note, due in ninety days, with interest at 6% from date. December 31, at the close of the fiscal period the amount of this indebtedness will have increased to \$5,025.00 because of the accrued interest. If the Balance Sheet is to show the true amount of the liabilities owed by the business and the true proprietorship, it will be necessary to record the additional indebtedness of \$25.00 and to show it on the Balance Sheet as a part of the liabilities. Interest accrued on notes payable and accounts payable is recorded at the close of the period in an account with Accrued Interest Cost.

ACCRUED INTEREST COST ACCOUNT

§ 202. **The Purpose of this Account** is to show the amount of accrued interest owed by the business at the close of the fiscal period because the notes to which it is applicable are not due or the accounts to which it is applicable are past due and unpaid. This account is opened only at the close of the fiscal period.

Debit the Accrued Interest Cost Acct.:

¶ 1. After the ledger is closed, for the amount shown on the credit side; or for the amount of accrued interest when paid in the next fiscal period.

Credit the Accrued Interest Cost Acct.:

¶ 2. At the close of each fiscal period, for the amount of accrued interest on notes payable and accounts payable.

¶ 3. *The Balance of the Accrued Interest Cost Account* shows the amount owed by the business for interest which has not been paid; it is a current liability and is shown as such on the Balance Sheet (Illustration No. 92).

§ 203. **Entry to Record Accrued Interest Cost.** At the close of the fiscal period, it is necessary to record in the general journal the amount of accrued interest cost. This entry is usually referred to as one of the adjusting entries (§ 46, ¶ 4) because its purpose is to record in an account in the ledger the amount of a liability which does not appear there. The entry in the general journal for the accrued interest mentioned in § 201 will be as in the illustration below.

December 31, 192

<i>Interest Cost</i>	<i>25</i>	
<i>Accrued Interest Cost</i>		<i>25</i>
<i>Accrued interest on notes payable</i>		

Recording the liability Accrued Interest Cost increases the cost of interest the same as if cash had been paid for the interest. When this entry is posted, the \$25.00 will appear as a liability on the credit side of the Accrued Interest Cost account, and as an expense on the debit side of the Interest Cost account.

§ 204. **Entry to Close the Accrued Interest Cost Account.** The accrued interest cost may be allowed to remain in the Accrued Interest Cost account until it is paid, or the balance of this account may be transferred to the Interest Cost account by an entry in the general journal after the ledger is closed. The latter practice is possibly the better because it avoids the necessity of separating accrued interest cost from interest cost when notes or accounts affected by the accrued interest are paid in a subsequent period.

Referring to the illustration in § 203, if the accrued interest is allowed to remain in the Accrued Interest Cost account until the note is paid on March 1, the entry required at that time, in journal form, will be as in the illustration below.

March 1, 192

<i>Notes Payable</i>	<i>5000</i>	
<i>Interest Cost</i>	<i>50</i>	
<i>Accrued Interest Cost</i>	<i>25</i>	
<i>Cash</i>		<i>5075</i>
<i>Paid note and interest due today.</i>		

If the balance of the Accrued Interest Cost account is transferred to the Interest Cost account after the ledger is closed, the entry will be as in the illustration below.

December 31, 192

Accrued Interest Cost	25	
Interest Cost		25
To transfer the balance of the Accrued Interest Cost account to the Interest Cost account		

When the note is paid on March 1, the entry, in journal form, will be as in the illustration below.

March 1, 192

Notes Payable	5000	
Interest Cost	75	
Cash		5075
Paid note and interest due today		

A comparison of the Interest Cost account after each entry is posted will show that the final results are the same. In the first case, the Interest Cost account is debited with \$50.00; in the second case, the Interest Cost account is credited with \$25.00 and debited with \$75.00, showing a net debit balance of \$50.00.

§ 205. **Deferred Charges to Operations** refer to (a) the value of property on hand at the close of the period which was purchased for use in the business and which will be consumed by its use, and (b) operating cost paid in advance.

Deferred charges applicable to material may be illustrated as follows: during the business year, office stationery and other supplies for use in the office have been purchased as needed, and their value debited to the Office Supplies account. At the close of the year, the balance of the Office Supplies account will show the net value of the supplies purchased, but it will not show the value of supplies consumed and supplies on hand. Consequently, it is necessary to ascertain the value by an inventory in the same manner as the value of merchandise in stock is ascertained. The value of the office supplies is shown on the Balance Sheet as an asset because it is something of value which will be used in the operations of the business during the next period.

Deferred charges applicable to operating cost paid in advance may be illustrated as follows: July 1, \$100.00 is paid as premium for an insurance policy issued for one year. At the close of the fiscal period, December 31, one-half the value of this premium, or \$50.00, remains as an asset to the business because the policy does not expire until June 30 of the following year. This asset must be shown on the Balance Sheet, otherwise the total assets and proprietorship will not show the true facts.

The asset referred to as a deferred charge is recorded in an account, but the amount recorded in the account shows the total cost and not the value of the

asset at the close of the fiscal period. In the case of insurance, the cost of the premium is debited to the Insurance account at the time it is paid; hence the balance of this account at the close of the fiscal period includes the cost of the insurance which has expired and the cost of the insurance which is yet to expire. For this reason the adjusting entry required to show the value of a deferred charge is made by taking out of the account the value of the property or service which has been used, thus leaving in the account the value of the property or service yet to be consumed. Insurance and Office Supplies are two accounts that require adjusting on account of deferred charges.

OFFICE SUPPLIES ACCOUNT

§ 206. **The Purpose of this Account** is to show the cost of material purchased for use in the office which will be consumed by its use; this material includes office stationery, pens, ink, wastebaskets, etc. The value of this material on hand at the close of a fiscal period is ascertained by a physical inventory at cost, the same as the value of merchandise.

Debit the Office Supplies Account:

- ¶ 1. For amounts paid for supplies to be used in the office.

Credit the Office Supplies Account:

- ¶ 2. (a) For any adjustment which reduces the cost of office supplies as shown by the debit side; (b) for the value of office supplies used—the difference between the balance of this account and the inventory of office supplies.

¶ 3. *The Balance of the Office Supplies Account*, before the value of the supplies used has been entered on the credit side, shows the net cost of office supplies purchased; the balance of this account after the value of the material used has been entered, shows the value of office supplies on hand at the close of the fiscal period. This latter balance is one of the assets of the business and is shown as such on the Balance Sheet (Illustration No. 92).

Advertising Material and Shipping Room Material are two other accounts of the same nature as Office Supplies; the former contains a record of material purchased for advertising purposes, and the latter, material for use in packing the merchandise sold.

§ 207. **Entry to Adjust the Office Supplies Account.** After the value of the office supplies on hand at the close of the fiscal period has been ascertained through an inventory, it is necessary to transfer to an operating account the cost of the material used, which is the difference between the inventory and the balance of the Office Supplies account. If the balance of the Office Supplies account is \$1,200.00 and the inventory \$287.50, the cost of the office supplies used is \$912.50; the entry required to transfer this to the Administrative Expense account will be as in the illustration below.

December 31, 192

Administrative Expense	912.50	
Office Supplies		912.50
Value of office supplies used.		

INSURANCE ACCOUNT

§ 208. **The Purpose of this Account** is to show a record of the amount paid for insurance. Insurance is a protection afforded by insurance companies against loss due to fire, water, theft, etc. This protection is secured by the payment of a small fee to a company organized for the purpose of issuing insurance; the fee paid for the protection is usually referred to as the premium, and the written contract of the company agreeing to afford the protection, as the policy. The premium is paid in advance, usually for one year. The insured has the privilege of canceling the policy at any time, in which case he will receive a refund of a part of the premium paid. Each insurance policy should be recorded in the insurance policy record (§ 174).

Debit the Insurance Account:

- ¶ 1. For all insurance cost, which is the premium paid for insurance.

Credit the Insurance Account:

- ¶ 2. (a) For any adjustments which reduce the cost of insurance as shown by the debit side; (b) at the close of each fiscal period, for the insurance cost for the period as shown by the policy record.

¶ 3. *The Balance of the Insurance Account*, before the entry for expired insurance has been made, shows the net cost of insurance, and, after the expired insurance has been credited to the account, the value of the premiums on unexpired insurance. This latter balance of the Insurance account is one of the deferred charges and is shown as such on the Balance Sheet (Illustration No. 92).

§ 209. **Entry to Adjust the Insurance Account.** At the close of the fiscal period, it is necessary to take out of the Insurance account the value of the insurance expired as shown by the insurance policy record. The Insurance account will be credited for the value of this expired insurance but the accounts debited will depend on the nature of the property protected by the insurance. Insurance cost on office equipment is usually regarded as an administrative expense; insurance cost on merchandise, store fixtures and delivery equipment, as a selling expense; and insurance cost on buildings, as a building expense. For this reason it is necessary to determine the value of the expired insurance applicable to each kind of property before debiting the accounts which are to show this cost. Assuming that the total cost of insurance is \$450.00 and the value of the unexpired insurance is \$150.00, the entry would require a credit of \$300.00 to the Insurance account and a debit of \$300.00 to the operating accounts affected. If the expired insurance on merchandise, store fixtures and delivery equipment is \$240.00, on office equipment \$20.00, and on buildings \$40.00, the entry will be as in the illustration below.

December 31, 192

<i>Selling Expense</i>	<i>240</i>		
<i>Administrative Expense</i>	<i>20</i>		
<i>Building Expense</i>	<i>40</i>		
<i>Insurance</i>			<i>300</i>
<i>Expired insurance on merchandise, store fixtures, delivery equipment, office equipment, and buildings.</i>			

When this entry is posted, the balance of the Insurance account will show the value of the unexpired insurance as recorded in the insurance policy record, and the operating cost due to the expiration of insurance premiums will be recorded in the proper expense accounts. The balance of the Insurance account will be shown on the Balance Sheet as one of the deferred charges to operations (Illustration No. 92).

§ 210. **Deferred Credits to Income** refer to income collected in advance, all of which has not been earned at the close of the fiscal period. This may be illustrated as follows: Martin Bros. own a building at 220 Main Street in which their business is operated. They rent one floor to A. B. Smith for \$100.00 per month, payable in advance on the 15th of each month. The income from this rent is credited to a Building Revenue account. At the close of the fiscal period, December 31, the Building Revenue account shows a credit of \$100.00, rent for one month in advance collected on December 15. Only one-half of the rent has been earned, however, the other \$50.00 being applicable to the next period. Unless the unearned rent is taken out of the Building Revenue account, this account will show a profit of \$50.00 more than has been earned during the current fiscal period. It is customary to record an item of this nature as a deferred credit to the income account which has been credited with the income. The caption of the account required to record the value of the unearned income from the rent collected in advance would be "Deferred Credit to Building Revenue".

DEFERRED CREDIT TO BUILDING REVENUE ACCOUNT

§ 211. **The Purpose of this Account** is to show at the close of the fiscal period the rent collected in advance. It is opened only at the close of the fiscal period.

Debit the Deferred Credit to Building Revenue Account:

¶ 1. After the ledger is closed, for the amount shown on the credit side.

Credit the Deferred Credit to Building Revenue Account:

¶ 2. At the close of the fiscal period, for that part of the rent collected in advance which is applicable to the next period.

¶ 3. *The Balance of the Deferred Credit to Building Revenue Account* shows the amount of rent that is yet to be earned. It is regarded as a liability and is shown as such on the Balance Sheet, being listed after the current and fixed liabilities.

§ 212. **Entry to Open the Deferred Credit to Building Revenue Account.** At the close of the fiscal period, it is necessary to record the amount of rent collected but not yet earned by the business. This entry is referred to as one of the adjusting entries (§ 46, ¶ 4) because its purpose is to record in an account in the ledger the value of a liability which does not appear there. The general journal entry for the rent collected in advance mentioned in § 210, will be as in the illustration below.

December 31, 192

<i>Building Revenue</i>	<i>50</i>	
<i>Deferred Credit to Bldg Revenue</i>		<i>50</i>
<i>Rent collected in advance</i>		

When this entry is posted, the \$50.00 will appear on the credit side of the Deferred Credit to Building Revenue account and on the debit side of the Building Revenue account; consequently, the ledger will show a liability of \$50.00 and a debit to an income account, of corresponding amount.

§ 213. Entry to Close the Deferred Credit to Building Revenue Account. After the ledger is closed, it is necessary to transfer the balance of the Deferred Credit to Building Revenue account to the Building Revenue account in order that the latter account may show in the next period only the income from rent applicable to that period. Applying this entry to the illustration in § 212, the record in the general journal will be as in the illustration below.

December 31, 1922

<i>Deferred Credit to Bldg Revenue</i>	<i>50</i>	
<i>Building Revenue</i>		<i>50</i>
<i>To transfer the balance of the</i>		
<i>Deferred Credit to Building</i>		
<i>Revenue account to the Building</i>		
<i>Revenue account</i>		

When this entry is posted, the Deferred Credit to Building Revenue account will be in balance, and the amount of rent collected in advance, applicable to the next period, will appear on the credit side of the Building Revenue account.

Exercise No. 78, Accruals and Deferred Items.

At the close of the fiscal period June 30, the accruals and deferred items to be recorded on the books of J. H. Kilgour & Co. are as follows:

Interest accrued on notes receivable.....\$ 68.95

Insurance:

Payments, per Insurance account:

On merchandise, store fixtures and delivery equipment.....	482.65
On office equipment.....	43.75
On building.....	92.50

618.90

Unexpired, per insurance policy record:

On merchandise, store fixtures and delivery equipment.....	96.60
On office equipment.....	11.50
On building.....	24.00

132.10

Office supplies:

Total purchased per Office Supplies account.....	527.40
On hand per inventory.....	192.95

334.45

Interest accrued on notes payable.....25.60

1. Make the adjusting entries (a) to record the accrued assets and liabilities, (b) to transfer the expired insurance to the proper operating accounts, and (c) to transfer the value of the office supplies used to the proper operating account.

2. Make the post-closing entries to transfer the accrued assets and liabilities to the proper operating accounts after the ledger is closed, under date of July 1.

Exercise No. 79, Accruals and Deferred Items.

At the close of the fiscal period, December 31, the accruals and deferred items to be recorded on the books of Wenger & Hoag are as follows:

Commission due from others for services rendered.....\$265.50

Insurance:

Payments, per Insurance account:

On merchandise, store fixtures, and delivery equipment..... 500.00

On office equipment..... 27.65

Unexpired, per insurance policy record:

On merchandise, store fixtures, and delivery equipment..... 235.55

On office equipment..... 9.45

Rent for month due but not paid..... 150.00

Wages unpaid:

Office employees..... 33.75

Employees in store..... 42.50

1. Make the adjusting entries (a) to record the accrued assets and liabilities, and (b) to transfer the expired insurance to the proper operating accounts.

2. Make the post-closing entries to transfer the accrued assets and liabilities to the proper operating accounts after the ledger is closed, under date of January 1.

QUESTIONS

1. Why is it customary to record accrued interest earned and accrued interest cost at the close of the fiscal period?
2. How would magazine subscriptions collected in advance be recorded at the close of the fiscal period by the bookkeeper for the company publishing the magazine?
3. (a) If an account is kept with Advertising Material, what will the balance of this account show after the adjusting entry for advertising material in stock has been made at the close of the fiscal period? (b) How will the advertising material used be shown on the Statement of Profit and Loss? (c) How will the advertising material on hand be shown on the Balance Sheet?
4. Why is it necessary to describe the nature of the property insured when recording a policy in the insurance policy record?
5. If the value of office supplies in stock, \$250.00, is not taken into consideration when preparing the Balance Sheet and Statement of Profit and Loss how will this affect the net income?
6. If \$600.00 is paid for three months' rent in advance on December 1, how will the two months' prepaid rent be recorded at the close of the fiscal period December 31?
7. What entry may be made for accrued interest earned after the ledger is closed?
8. (a) What is the purpose of the Accrued Interest Cost account? (b) What is the difference between this account and the Accrued Interest Earned account?
9. Is there any difference between the merchandise in stock at the close of the fiscal period and the office supplies and advertising material in stock, from the viewpoint of one who is using this information as a basis for making a loan to the business owning the property?
10. What does the balance of the Office Supplies account show (a) before the inventory is recorded and (b) after the inventory is recorded?

Chapter XXII

ADJUSTING ENTRIES AND REPORTS

The Purpose of this Chapter is to present in pictorial form the work required of the bookkeeper at the close of the fiscal period. It is a Model Set with the books of original entry and accounts omitted. The principles involved have been discussed and illustrated in the preceding chapters.

§ 214. **The Work Required** at the close of the fiscal period is usually completed in the following order:

1. Trial Balance at the end of the month which closes the fiscal period.
2. Preparation of the list of inventories, accruals and reserves.
3. Adjusting entries in the general journal for the inventories, accruals and reserves, and the posting of these entries.
4. Trial Balance after the adjusting entries have been posted.
5. Preparation of the Balance Sheet.
6. Preparation of the Statement of Profit and Loss.
7. Recording and posting the closing entries.
8. Recording and posting the post-closing entries.
9. Post-closing Trial Balance.

If desired, the Trial Balance mentioned in paragraph 1 may be prepared on paper ruled with eight money columns—two for the debits and credits in the Trial Balance; two for the debit and credit adjustments; two for assets and liabilities; and two for income and costs. When this form is provided, the journal entries (paragraph 3) can be posted to the Adjustment columns and the assets, liabilities, costs and income extended into the other columns. When this plan is followed, the Trial Balance mentioned in paragraph 4 may be omitted. This method of procedure is discussed under the title "Working Sheet" in a subsequent chapter.

EXPLANATION OF ILLUSTRATIONS

§ 215. **The Trial Balance** at the close of the fiscal period in Illustration No. 88 shows the accounts in the ledger of C. W. Keeland & Co. on December 31, 1922. It is the same form as the Trial Balance taken at the close of each of the preceding eleven months. This Trial Balance shows the same facts as the Trial Balance in Illustration No. 5 and the other Trial Balances illustrated in previous chapters; that is, all the open accounts in the ledger. The only difference between this Trial Balance and the others illustrated in previous chapters is that the ledger from which this Trial Balance was taken contains a greater number of accounts.

§ 216. **The List of Inventories, Accruals and Reserves** in Illustration No. 89 shows information which is not shown by accounts on the Trial Balance, Illustration No. 88. The value of the merchandise in stock and the office supplies on hand was ascertained by a physical inventory. The amount of the accrued interest on notes receivable and notes payable was obtained from the interest-bearing notes not due until the next fiscal period; these amounts can be verified by reference to the notes receivable book, Illustration No. 74, and the notes payable book, Illustration No. 75. The amount of the expired and unexpired insurance was ascertained from the insurance policy record; this can be verified by reference to Illustration No. 76. The amount of accrued wages represents the wages due employees in the selling department for three days, the fiscal period ending on Wednesday and pay-day being on Saturday. The amount of accrued rent refers to the rent of the office which is not due until the first of the following month. The percentages for reserves set up on account of depreciation and loss on doubtful accounts were supplied by the management; these conform to the percentages permitted by the Collector of Internal Revenue in the preparation of the income

C. W. Keeland & Co.
Trial Balance, December 31, 1922

1	Cash	153217	
1	Notes Receivable	134565	
2	Accounts Receivable	235301	
2	Reserve for Doubtful Accounts	1001	1919
4	Office Equipment	480	
4	Reserve for Dep of Office Equip.		24
5	Store Fixtures	204	
5	Reserve for Dep of Store Fixtures		1020
6	Delivery Equipment	3000	
6	Reserve for Dep. of Delivery Equip.		300
7	Buildings	3000	
7	Reserve for Depreciation of Buildings		45
7	Land	4000	
8	Office Supplies	30125	
8	Insurance	19096	
9	Notes Payable		208139
9	Accounts Payable		179582
11	C. W. Keeland, Capital		5000
12	A. D. Munson, Capital		5000
13	Sales		2678312
13	Sales Returns	2017	
13	Sales Allowances	4191	
14	1921 Inventory	219871	
15	Purchases	1316154	
15	Freight In	711897	
15	Purchases Returns and Allowances		41185
16	Selling Expense	152065	
17	Administrative Expense	121784	
17	Building Expense	10719	
18	Interest Earned		15111
18	Purchases Discount		52036
19	Interest Cost	9172	
19	Sales Discount	6475	
		4214204	4214204
		4214204	4214204

Illustration No. 88, Trial Balance at the Close of the Fiscal Period.

tax return. All the information given in this list is necessary in order that a Balance Sheet and Statement of Profit and Loss may be prepared which will show the management the true value of the assets, liabilities, and proprietorship

C. H. Keeland & Co
Inventories, Accruals and Reserves, December 31, 1922

Inventory of Merchandise Dec. 31, 1922		321819
Accruals:		
Interest accrued on notes receivable		1237
Unpaid wages in selling dept.		6181
Unpaid rent of office		100
Interest accrued on notes payable		1133
Deferred Charges:		
Office supplies on hand		4423
Unexpired insurance:		
On Milse, Store Fixtures and Del Equip:		
Total premiums paid	14920	
Expired per policy record	12072	2848
On Office Equipment:		
Total premiums paid	576	
Expired per policy record	576	
On Buildings:		
Total premiums paid	36	
Expired per policy record	18	18
Reserves:		
Office Equipment, 5%		
Store Fixtures, 5%		
Delivery Equipment, 10%		
Buildings, 1½%		
Doubtful Accounts, 1% of Accounts Receivable		

Illustration No. 89, List of Inventories, Accruals and Reserves.

of the business, and the net profit resulting from operating the business during the fiscal period.

§ 217. **The Adjusting Entries** required at the close of the fiscal period in Illustration No. 90 were prepared from the list of inventories, accruals and reserves (Illustration No. 89). These entries have been explained and illustrated in preceding sections. The entry to record the value of the merchandise in stock at the close of the fiscal period—in this case, the 1922 Inventory—may be made in connection with closing the ledger or as an adjusting entry; the final results are the same, the only difference being that, if the inventory is recorded before the Balance Sheet and Statement of Profit and Loss are prepared, these reports can be made from the Trial Balance taken after the adjusting entries are posted. The entries made in connection with the deferred charges (Office Supplies and Insurance) do not record the value of the office supplies in stock and the unexpired insurance, but transfer from the Office Supplies account and the Insurance account the value of the office supplies which have been used and the amount of the expired insurance. When preparing the list of inventories, accruals and re-

December 31, 1922

14	1922 Inventory	321819	
15	Purchases		321819
	Merchandise in stock December 31, 1922		
	31		
3	Accrued Interest Earned	1237	
18	Interest Earned		1237
	Accrued asset per schedule		
	31		
16	Selling Expense	6181	
17	Administrative Expense	100	
19	Interest Cost	1133	
10	Accrued Wages		6181
10	Accrued Rent		100
10	Accrued Interest Cost		1133
	Accrued liabilities per schedule.		
	31		
17	Administrative Expense	25702	
8	Office Supplies		25702
	Office supplies used during the year.		
	31		
16	Selling Expense	12072	
17	Administrative Expense	576	
17	Building Expense	18	
8	Insurance		14448
	Expired insurance		
	31		
17	Administrative Expense	24	
16	Selling Expense	31020	
17	Building Expense	45	
16	Loss on Doubtful Accounts	2353	
4	Res. for Dep. of Office Equip.		24
5	Res. for Dep. of Store Fixtures		1020
6	Res. for Dep. of Delivery Equip.		300
7	Res. for Dep. of Building		45
2	Reserve for Doubtful Accounts		2353
	Reserves per schedule.		

Illustration No. 90, Adjusting Entries for Inventories, Accruals and Reserves in
Illustration No. 89.

serves, it is necessary to show the kind of property to which the expired insurance premiums are applicable, in order that the adjusting entry for insurance can be made without further reference to the insurance policy record. One combined entry is made for the reserves; depreciation on store fixtures and delivery equipment increases the selling expense, hence the debit to this account includes both reserves.

C. W. Keeland & Co.
Trial Balance, December 31, 1922

1	Cash	153217	
1	Notes Receivable	134565	
2	Accounts Receivable	235301	
2	Reserve for Doubtful Accounts		3271
3	Accrued Interest Earned	1237	
4	Office Equipment	480	
4	Reserve for Dep. of Office Equip.		48
5	Store Fixtures	204	
5	Reserve for Dep. of Store Fixtures		2040
6	Delivery Equipment	3000	
6	Reserve for Dep. of Delivery Equip.		600
7	Buildings	3000	
7	Reserve for Depreciation of Buildings		90
7	Land	4000	
8	Office Supplies	4423	
8	Insurance	4648	
9	Notes Payable		208139
9	Accounts Payable		179582
10	Accrued Wages		6181
10	Accrued Rent		100
10	Accrued Interest Cost		1133
11	C. W. Keeland, Capital		5000
12	A. D. Munson Capital		5000
13	Sales		2678312
13	Sales Returns	20171	
13	Sales Allowances	4191	
14	1921 Inventory	219871	
14	1922 Inventory	321819	
15	Purchases	1316154	321819
15	Freight In	711897	
15	Purchases Returns and Allowances	4195894	41185
✓	Carried Forward	4195894	4525462

Illustration No. 91, Trial Balance after the Adjusting Entries in Illustration No. 90 have been Posted.
 (Concluded on page 222)

Trial Balance, Dec. 31, 1922 (Concluded)

✓ Brought Forward	4195894	4525462
✓ Selling Expense	201338	
✓ Loss on Doubtful Accounts	2353	
✓ Administrative Expense	160462	
✓ Building Expense	17019	
✓ Interest Earned		16348
✓ Purchases Discount		52036
✓ Interest Cost	10305	
✓ Sales Discount	6475	
	4593846	4593846
	4593846	4593846

Illustration No. 91, Trial Balance after the Adjusting Entries in Illustration No. 90 have been Posted—Concluded.

NOTE. When the Working Sheet is used (§ 214), this Trial Balance is omitted, as the same facts are shown by the assets, liabilities, costs and income columns.

§ 218. **The Final Trial Balance** (Illustration No. 91) was made after the adjusting entries in Illustration No. 90 were posted to the ledger from which the Trial Balance (Illustration No. 88) was made. A comparison of the final Trial Balance (Illustration No. 91) with the Trial Balance taken before the adjusting entries were made (Illustration No. 88) will show the following changes:

The five reserve accounts each show an increased credit balance, the increase being the additional reserve set up because of the operations of the business during the past year; the balance of the Office Supplies account has changed because the value of the office supplies used has been transferred to the proper expense account; the balance of the Insurance account has changed because the value of expired insurance has been transferred to the proper expense accounts; the final Trial Balance shows three additional liabilities, Accrued Wages, Accrued Rent, and Accrued Interest Cost; the 1922 Inventory appears on the final Trial Balance, and there is a credit to Purchases for the same amount as the 1922 inventory (both sides of the Purchases account are shown because this information is needed in connection with the preparation of the Statement of Profit and Loss); Selling Expense shows an increased debit balance because of the unpaid wages, expired insurance, depreciation, and loss on doubtful accounts; Loss on Doubtful Accounts is a new account because of the reserve set up to take care of loss on doubtful accounts; Administrative Expense and Building Expense each show an increased debit balance because of the depreciation, expired insurance, office supplies used, and unpaid rent; Interest Earned shows an increased credit balance because of the accrued interest on notes receivable; Interest Cost shows an increased debit balance because of the accrued interest on notes payable.

The balance of each account on the final Trial Balance, Illustration No. 91, is used in the preparation of the Balance Sheet or Statement of Profit and Loss, except Purchases, both sides of which are needed in arriving at the net cost of the merchandise sold; the balances of the proprietors' Capital accounts are not used on either the Balance Sheet or Statement of Profit and Loss but are needed in connection with the proof of these in Illustration No. 94.

§ 219. **The Balance Sheet** in Illustration No. 92 was prepared from the asset, liability, and reserve accounts on the Trial Balance, Illustration No. 91. The information in this report is arranged in the following order: (1) current assets, with the proper deduction for the anticipated loss on doubtful accounts as

C. W. Keeland & Co.
Balance Sheet, December 31, 1922

<i>Current Assets:</i>			
Cash		153717	
Notes Receivable		134565	
Accounts Receivable	2353.01		
Less Res for Dbk. Accts.	3271	232030	
Inventory, Dec. 31, 1922		371819	
Accrued Interest Earned		1237	
Total Current Assets			842868
<i>Fixed Assets:</i>			
Office Equipment	480.00		
Less Reserve for Depreciation	480.00	432	
Store Fixtures	204.00		
Less Reserve for Depreciation	204.00	18360	
Delivery Equipment	3000.00		
Less Reserve for Depreciation	600.00	2400	
Buildings	3000.00		
Less Reserve for Depreciation	900.00	2910	
Land		4000	
Total Fixed Assets:			992560
<i>Deferred Charges to Operations:</i>			
Office Supplies		4423	
Insurance		4648	
Total Deferred Charges			9071
Total Assets and Deferred Charges			1844499
<i>Current Liabilities:</i>			
Notes Payable		208139	
Accounts Payable		179582	
Accrued Wages		6181	
Accrued Rent		100	
Accrued Interest Cost		1133	
Total Current Liabilities			405035
<i>Proprietorship:</i>			
C. W. Keeland		719732	
A. D. Munson		719732	
Total Proprietorship			1439464
Total Liabilities and Proprietorship			1844499

represented by the Reserve for Doubtful Accounts account; (2) fixed assets, with the proper reserves for depreciation; (3) deferred charges; (4) current liabilities; (5) proprietorship, showing the proprietary interest of each partner. The form is the same as the Balance Sheet for the model set described and illustrated in Chapter VI, with the exception of additional accounts which have been explained in subsequent chapters. Deferred charges are listed after fixed assets because their value is applicable to the business only as a going concern, hence are the least available of all the assets from the standpoint of those who might wish to extend credit to the business. The proprietorship of each partner is not the same as that shown by his capital account on the Trial Balance because his interest has been increased through the operations of the business; a proof of the correctness of the amount of this increase is shown in Illustration No. 94. As previously explained, the purpose of the Balance Sheet is to show the owner of the business the assets, liabilities, and his proprietorship in the business; it is a report and may be prepared in one of two forms, as explained in Chapter VII.

§ 220. The Statement of Profit and Loss in Illustration No. 93 was prepared from the operating and non-operating income and the operating and non-operating expense accounts in the Trial Balance, Illustration No. 91. The information in this report is arranged in the following order: (1) gross sales (balance of the Sales account); (2) net returns from sales (returns and allowances deducted from the total sales); (3) net cost of merchandise purchased (1921 inventory plus debit side of the Purchases account plus balance of the Freight In account, less the amount of the purchases returns and allowances); (4) net cost of merchandise sold (net cost of merchandise purchased less the 1922 inventory, which is the same as the credit side of the Purchases account); (5) gross profit on sales (net returns from sales less net cost of merchandise sold); (6) operating cost (total of the three expense accounts and the Loss on Doubtful Accounts account); (7) net profit from operations (gross profit on sales less total operating cost); (8) other income (Interest Earned and Purchases Discount); (9) gross income (net profit from operations plus other income); (10) deductions from income (Interest Cost and Sales Discount); (11) net income (gross income less deductions from income); (12) distribution of the net income (that part of the profit which is to be credited to each partner's Capital account and to his Personal account for withdrawal). The purpose of the Statement of Profit and Loss is to show the owners of the business the net profit resulting from the operations of the business during the fiscal period and the various facts in connection with this net profit which will be of assistance to them in the future operations of the business; it is a report and may be prepared in one of two forms, as explained in Chapter VII.

§ 221. The Proof in Illustration No. 94 shows that the proprietorship on the Balance Sheet (Illustration No. 92) and the net profit on the Statement of Profit and Loss (Illustration No. 93) are correct. This proof is made for the convenience of the bookkeeper before the reports are submitted to the management, but need not be submitted as a part of the reports. The net profit on the Statement of Profit and Loss, Illustration No. 93, is \$4,394.64. The proprietary interest of each partner at the beginning of the period is \$5,000.00, as shown by the balance of his Capital account on the final Trial Balance, Illustration No. 91. The proprietary interest of each partner as shown by the Balance Sheet, Illustration No. 92, is \$7,197.32. Deducting the proprietorship at the beginning of the period from the proprietorship at the end of the period shows the increase in proprietorship; in the illustration it is \$2,197.32 each, or \$4,394.64, total. No facts set forth by the Balance Sheet or Statement of Profit and Loss can be accepted as correct until this proof has been made.

This proof is not necessary when the Working Sheet (§ 214) is prepared because the results are proved when the difference between the assets and liabilities columns is the same as the difference between the income and costs columns.

C. W. Keeland & Co.
Statement of Profit and Loss for Year Ending December 31, 1922

<i>Returns from Sales:</i>			
<i>Gross Sales</i>		2678312	
<i>Less: Returns</i>	20171		
<i>Allowances</i>	4191	24362	
<i>Net Returns from Sales</i>			2653950
<i>Cost of Mdse. Sold:</i>			
<i>Inventory Dec. 31, 1921</i>	219871		
<i>Purchases</i>	1316154		
<i>Freight In</i>	711897	2247922	
<i>Less: Ret. Returns and Allowances</i>		41185	
<i>Net Cost of Mdse. Purchased</i>		2206737	
<i>Inventory Dec. 31, 1922</i>		321819	
<i>Net Cost of Mdse. Sold</i>			1884918
<i>Gross Profit on Sales</i>			769032
<i>Operating Expenses:</i>			
<i>Selling Expense</i>		201338	
<i>Loss on Doubtful Accounts</i>		2853	
<i>Administrative Expense</i>		160462	
<i>Building Expense</i>		17019	
<i>Total Operating Expenses</i>			381172
<i>Net Profit from Operations</i>			387860
<i>Other Income:</i>			
<i>Interest Earned</i>		16348	
<i>Purchases Discount</i>		52036	
<i>Total Other Income</i>			68384
<i>Gross Income</i>			456244
<i>Deductions from Income:</i>			
<i>Interest Cost</i>		10305	
<i>Sales Discount</i>		6475	
<i>Total Deductions from Income</i>			16780
<i>Net Income</i>			439464
<i>Distribution:</i>			
<i>C. W. Keeland, Capital</i>		169732	
<i>C. W. Keeland, Personal</i>		500	
<i>A. D. Munson, Capital</i>		169732	
<i>A. D. Munson, Personal</i>		500	
		439464	439464

Proof

<i>Net Profit (Statement of Profit and Loss)</i>					439464
<i>E. W. Keeland:</i>					
<i>Proprietorship 7/31/22 (Bal. Sheet) 7197.32</i>					
<i>Proprietorship 7/31/21 (Cap. Acct.) 5000.00</i>					
<i>Increase in Proprietorship</i>			2197.32		
<i>A. D. Munson:</i>					
<i>Proprietorship 7/31/22 (Bal. Sheet) 7197.32</i>					
<i>Proprietorship 7/31/21 (Cap. Acct.) 5000.00</i>					
<i>Increase in Proprietorship</i>			2197.32		
<i>Total Increase in Proprietorship</i>			439464	439464	

Illustration No. 94, Proof of Net Profit.

§ 222. **The Closing Entries** in Illustration No. 95* were prepared from the Statement of Profit and Loss, Illustration No. 93. The purpose of these entries is to close all operating and non-operating income and expense accounts and to give each partner the proper credit in his Capital and Personal accounts for his share of the profit for the period. The process of closing is the same as that explained in Chapter VIII with the exception of additional entries necessary because of additional accounts. The first entry closes the Sales Returns and Sales Allowances accounts into the Sales account; the second entry, the 1921 Inventory and Freight In accounts into the Purchases account; and the third entry, the Purchases Returns and Allowances account into the Purchases account; these three entries were not needed in connection with closing the ledger as discussed in Chapter VIII. The fourth entry closes the Purchases account into the Sales account; the fifth, the Sales account into the Profit and Loss account; and the sixth, the operating expense accounts into the Profit and Loss account; these three entries are identical with the second, third and fourth entries discussed in Chapter VIII. The seventh entry closes the non-operating income accounts into the Profit and Loss account, and the eighth, the non-operating expense accounts into the Profit and Loss account; these two entries were not shown in the illustration in Chapter VIII because there were no non-operating incomes and no non-operating expenses. The ninth entry closes the Profit and Loss account into the proprietors' Capital and Personal accounts; this corresponds to the fifth entry in Chapter VIII, the only difference being in the distribution of the net profit. The entry to place the value of the closing inventory—in this case, the 1922 Inventory—on the ledger was made as an adjusting entry (Illustration No. 90) instead of as a closing entry as in Chapter VIII (see note in § 57). A comparison of the discussion at this time with that given in Chapter VIII is made that the student may see that the method of closing is the same, the changes being due to the additional accounts and not to a change in the method of procedure. After the closing journal entries

(Concluded on page 228.)

* The journal entry method of closing the ledger, as shown in Illustration No. 95, is preferable because it provides in a book of original entry a record of each entry in the ledger and thus facilitates auditing. If desired, however, the closing entries may be made direct in the ledger; this plan is explained in Appendix B.

December 31, 1922

13	Sales	24362	
13	Sales Returns		20171
13	Sales Allowances		4191
	To close the Sales Returns and Sales Allowances accounts.		
	31		
15	Purchases	931768	
14	1921 Inventory		219871
15	Freight In		711897
	To close the 1921 Inventory and Freight In accounts.		
	31		
15	Purchases Returns and Allowances	41185	
15	Purchases		41185
	To close the Purchases Returns and Allowances account.		
	31		
13	Sales	1884918	
15	Purchases		1884918
	To close the Purchases account.		
	31		
13	Sales	769032	
20	Profit and Loss		769032
	To close the Sales account.		
	31		
20	Profit and Loss	381172	
16	Selling Expense		201338
16	Loss on Doubtful Accounts		2353
17	Administrative Expense		160462
17	Building Expense		17019
	To close the operating expense accounts.		
	31		
18	Interest Earned	16348	
18	Purchases Discount	52036	
20	Profit and Loss		68384
	To close the non-operating income accounts.		

Illustration No. 95, Journal Entries to Close the Ledger—Continued.

December 31, 1922

20	Profit and Loss	16780	
19	Interest Cost		10305
19	Sales Discount		6475
	To close the non-operating expense accounts		
	31		
20	Profit and Loss	439464	
11	C. W. Keeland, Capital		169732
11	C. W. Keeland, Personal		500
12	A. D. Munson, Capital		169732
12	A. D. Munson, Personal		500
	To close the Profit and Loss account		

Illustration No. 95, Journal Entries to Close the Ledger—Concluded.

(Continued from page 226.)

have been posted to the accounts in the ledger and those accounts which are in balance ruled, the operating and non-operating income and expense accounts will be in balance and the Capital and Personal accounts of each partner will show his proprietary interest in the business. The Capital accounts of the partner should be balanced and ruled in the same manner as explained in Chapter VIII.

§ 223. The Post-closing Entries in Illustration No. 96 are required to close the Accrued Interest Earned and Accrued Interest Cost accounts into the Interest Earned and Interest Cost accounts, as explained in §§ 196 and 204. The Accrued Rent and Accrued Wages accounts are not closed because these obligations will be paid early in the next fiscal period (§ 200) and in one amount. When the above entries are posted the Accrued Interest Earned and Accrued Interest Cost accounts will be in balance and the interest resulting from these accruals will be properly recorded in the two accounts with interest.

December 31, 1922

18	Interest Earned	1237	
3	Accrued Interest Earned		1237
	To close the Accrued Interest Earned account		
	31		
10	Accrued Interest Cost	1133	
19	Interest Cost		1133
	To close the Accrued Interest Cost account		

Illustration No. 96, Post-closing Entries.

§ 224. The Post-closing Trial Balance in Illustration No. 97 was prepared from the ledger accounts after the entries in Illustrations Nos. 95 and 96 were posted. The purpose of this Trial Balance is to prove that the ledger is in balance at the close of the fiscal period, thus enabling the bookkeeper to secure a Trial Balance at the end of the first month in the next fiscal period. If the ledger is out of balance at the beginning of the fiscal period because of errors in closing or post-closing entries, it will remain out of balance until the error is discovered and corrected.

C. W. Keeland & Co
Post Closing Trial Balance, December 31, 1922

1	Cash	153217	
1	Notes Receivable	134565	
2	Accounts Receivable	235301	
2	Reserve for Doubtful Accounts		3271
4	Office Equipment	480	
4	Reserve for Dep. of Office Equip.		48
5	Store Fixtures	2044	
5	Reserve for Dep. of Store Fixtures		2040
6	Delivery Equipment	3000	
6	Reserve for Dep. Delivery Equip.		600
7	Buildings	3000	
7	Reserve for Depreciation of Buildings		90
7	Land	4000	
8	Office Supplies	4423	
8	Insurance	4648	
9	Notes Payable		208139
9	Accounts Payable		179582
10	Accrued Wages		6181
10	Accrued Rent		100
11	C. W. Keeland Capital		669732
11	C. W. Keeland Personal		500
12	A. D. Munson Capital		669732
12	A. D. Munson Personal		500
14	1922 Inventory	321819	
18	Interest Earned	1237	
19	Interest Cost		
			1133
		1923610	1923610
		1923610	1923610

Illustration No. 97, Post-closing Trial Balance.

Exercise No. 80, Adjusting Entries and Reports.

The following list of accruals, deferred items, reserves, and merchandise inventory, December 31, 1922, is applicable to the retail furniture business, Exercise No. 71, pages 184-188.

- (a) Merchandise in stock, \$21,265.97.
- (b) Interest accrued on notes receivable, \$18.05.
- (c) Interest accrued on notes payable, \$1.56. Unpaid pay roll for one-half week: office employees, \$25.00; selling department, \$75.00. December garage rent unpaid, \$25.00.
- (d) Interest on notes payable paid in advance, \$6.33 (see note, bottom of page 206). Office supplies on hand, \$125.07. Unexpired insurance: on merchandise, \$111.98; on delivery equipment, \$42.10; on building, \$33.42.
- (e) Reserves for Depreciation: Office Equipment, 5%; Delivery Equipment, 10%; Building, 2½%.
- (f) Reserve for Doubtful Accounts: ¼% of sales (credit balance of Sales account).

Follow instructions given below:

- 1. Make the adjusting journal entries.
- 2. Post to the ledger sheets used in Exercise No. 71, and take a Trial Balance.
- 3. Prepare a Balance Sheet and a Statement of Profit and Loss, both in "report" form. (The profit is shared equally by the partners.)
- 4. Record in the general journal the entries necessary to close the ledger.
- 5. Make the post-closing entries, post them, and take a post-closing Trial Balance.

QUESTIONS

- 1. Is it necessary for the bookkeeper or accountant to prepare the Balance Sheet first?
- 2. Why is the Balance Sheet usually prepared first and the Statement of Profit and Loss second?
- 3. What information does the management of the business obtain from (a) the Balance Sheet and (b) the Statement of Profit and Loss?
- 4. Why is it necessary for the net profit as shown by the Statement of Profit and Loss to be the same as the increase in capital as shown by the Balance Sheet?
- 5. What is the distinction (a) between the adjusting entries and closing entries and (b) between the closing entries and post-closing entries?
- 6. Is it necessary to close the ledger at the end of the fiscal period? Give reason for answer.
- 7. If merchandise which cost \$2,000.00 is inventoried at \$1,500.00, what effect will this have on the net profit?
- 8. Why is it customary when taking stock to use the cost price of merchandise instead of the market price when the latter is greater than the former?
- 9. What effect would an error in closing the ledger have on the Trial Balances in subsequent periods?
- 10. How is the amount of accrued interest earned and accrued interest cost obtained?

Chapter XXIII

PARTNERSHIP PROBLEMS

The Purpose of this Chapter is to develop the principles discussed in the preceding chapters by means of problems requiring their application, and to illustrate the opening, current, adjusting, and closing entries peculiar to a business conducted by partners; also to give additional practice in the preparation of the Balance Sheet and Statement of Profit and Loss for a partnership business. Each problem is treated as an exercise and numbered consecutively, following the preceding exercises.

Exercise No. 81, Opening Entries.

F. L. Burke, R. S. Cooke, and C. B. Summers form a partnership for the purpose of transporting freight by truck. F. L. Burke and R. S. Cooke have been operating independent lines but wish to consolidate; C. B. Summers is admitted as a partner because of the additional cash capital needed for the operation of the consolidated lines.

Mr. Burke invests the present assets of his business, consisting of the following: three trucks, cost price \$2,500.00 each; depreciation on trucks, \$750.00; accounts receivable, \$1,251.50; reserve for doubtful accounts, \$116.40; notes receivable, \$500.00; check on the First National Bank, \$627.65. The new firm agrees to assume the following liabilities: accounts payable, \$327.60; a note for \$1,000.00 payable at the First National Bank; accrued interest on the note, \$8.50.

Mr. Cooke invests the following assets: four trucks, cost price \$1,650.00 each; depreciation on trucks, \$1,320.00; office equipment, \$350.00; depreciation on office equipment, \$35.00; accounts receivable, \$762.50; reserve for doubtful accounts, \$84.70; check on the City National Bank, \$1,323.45.

Mr. Summers invests check on the Atlas National Bank, \$7,500.00.

Prepare in journal form, under date of July 1, the entries necessary to open the books of the new partnership. Debit an account with Trucks with the present value of the trucks invested.

Exercise No. 82, Opening Entries.

W. H. Rankin and Chas. O. Watkins form a partnership for the purpose of engaging in the retail shoe business. Mr. Rankin invests his present stock of goods, valued at \$2,684.73; personal accounts due him, \$1,274.28, less 2% for bad debts; a note due him for \$375.60; accrued interest on this, \$3.76; office equipment, cost value, \$447.65; depreciation on the same, \$44.77; store fixtures \$650.00; depreciation on the same, \$65.00; cash in bank to his credit, \$1,428.65; he owes personal accounts, \$2,176.48; and a note for \$1,000.00.

Mr. Watkins invests cash, \$2,000.00; a note in his favor, \$1,500.00; and accrued interest on this note, \$27.65.

Prepare in journal form, under date of February 1, the entries required to record the investment of the partners.

Exercise No. 83, Opening Entries.

W. H. Armstrong and C. L. Whittle form a partnership for the purpose of engaging in the retail hardware business. Mr. Armstrong invests cash in the bank, \$387.62; merchandise in stock, \$2,438.26; personal accounts due him, \$972.40; reserve for bad debts, 2%; office equipment, cost value, \$350.00; depreciation on the same, \$35.00; store fixtures, \$475.00; depreciation on the same, \$47.50; notes receivable, \$675.27; accrued interest on the same, \$36.20. The partnership assumes personal accounts which he owes, \$942.76; a note due the First National Bank for \$1,000.00; accrued interest on this, \$20.00. Mr. Whittle invests cash, \$1,427.86; merchandise in stock, \$1,360.48; personal accounts due him, \$843.65, less 2% for bad debts; delivery equipment, cost value, \$850.00; depreciation on the same, \$85.00; notes receivable due him, \$1,265.74; accrued interest on the same, \$82.75. The partnership assumes personal accounts which he owes, \$365.40; a note due the City National Bank, \$500.00.

Prepare in journal form, under date of October 1, the entries required to record the investment of the partners.

Exercise No. 84, Transactions Affecting Partners' Capital Accounts.

1. Record direct in the capital accounts the following transactions relating to the investments and withdrawals of L. B. Audigier, M. B. Griffin and C. B. Carter, in the real estate business:

- Jan. 1. Each partner invested \$3,000.00; 28, L. B. Audigier withdrew \$500.00.
- Feb. 6. M. B. Griffin invested \$1,200.00; 24, C. B. Carter invested \$1,500.00.
- Mar. 1. L. B. Audigier invested \$2,500.00; 8, M. B. Griffin invested \$1,500.00; 12, C. B. Carter withdrew \$1,265.28; 16, M. B. Griffin invested \$1,582.75; 31, L. B. Audigier withdrew \$827.40.
- Apr. 15. The firm accepted real estate belonging to L. B. Audigier, valued at \$1,182.65; 22, M. B. Griffin withdrew \$1,265.91.
- July 1. L. B. Audigier withdrew \$500.00.
- Aug. 1. M. B. Griffin withdrew \$1,342.86; 16, L. B. Audigier invested \$1,598.76; 12, M. B. Griffin invested \$1,800.00.
- Sept. 1. C. B. Carter invested \$2,500.00; 29, C. B. Carter withdrew \$1,500.00.
- Oct. 5. M. B. Griffin withdrew \$850.00; 31, L. B. Audigier withdrew \$1,000.00.
- Nov. 5. M. B. Griffin invested \$1,200.00; 9, C. B. Carter invested \$1,000.00; 22, L. B. Audigier invested \$1,250.00.
- Dec. 1. C. B. Carter withdrew \$250.00.

2. December 31, the net profit, as shown by the Statement of Profit and Loss, was \$4,500.00. Make the entry to transfer this to their capital accounts, assuming that this profit is to be shared equally.

3. January 1 of the following year, the business was sold for \$24,000.00. Show the division of this cash between the partners according to each partner's net investment.

Exercise No. 85, Consolidation of Two Partnerships.

E. F. Penn and G. W. Penn are partners operating a retail grocery business in one locality, and F. V. Knight and H. O. Powell are partners operating the same line of business in another locality. It is agreed to form a partnership, consolidating

the two businesses. Each partner is to invest \$5,000.00 and share equally in the profits of the new business. The Trial Balances taken from the ledgers of the two concerns after the books were closed April 30, 192.., are as follows: ■

PENN BROS. Post-closing Trial Balance, April 30, 192..

Cash.....	308	42		
Notes Receivable.....	321	40		
Accounts Receivable.....	1,694	39		
Reserve for Bad Debts.....			34	20
Merchandise Inventory.....	1,775	15		
Accrued Interest Earned.....		6	11	
Furniture and Fixtures.....	295	00		
Reserve for Depreciation of Furniture and Fixtures.....			29	50
Buildings.....	4,000	00		
Reserve for Depreciation of Buildings.....			-200	00
Land.....	2,500	00		
Insurance.....	156	75		
Notes Payable.....			534	40
Accounts Payable.....			942	27
Accrued Interest Cost.....			35	65
Accrued Wages.....			76	40
E. F. Penn, Capital.....			5,635	90
E. F. Penn, Personal.....	1,014	35		
G. W. Penn, Capital.....			5,478	45
G. W. Penn, Personal.....	895	20		
	12,966	77	12,966	77

KNIGHT & POWELL Post-closing Trial Balance, April 30, 192..

Cash.....	2,995	95		
Accounts Receivable.....	3,748	16		
Reserve for Doubtful Accounts.....			75	29
Inventory.....	4,500	00		
Furniture and Fixtures.....	325	00		
Reserve for Depreciation of Furniture and Fixtures.....			48	75
Delivery Equipment.....	1,850	00		
Reserve for Depreciation of Delivery Equipment.....			370	00
Insurance.....	396	84		
Office Supplies.....	142	17		
Notes Payable.....			1,091	65
Accounts Payable.....			1,543	70
Accrued Interest Cost.....			65	47
Accrued Rent.....			175	00
F. V. Knight, Capital.....			4,869	36
F. V. Knight, Personal.....			37	65
H. O. Powell, Capital.....			5,386	22
H. O. Powell, Personal.....			295	03
	13,958	12	13,958	12

(1) Prepare the journal entries to open the books of the new partnership. Debit the fixed asset accounts for their net invested value.

(2) Prepare the journal entries to close the partners' personal accounts into their capital accounts.

(3) Show in journal form the entries necessary to record the additional cash investment of three of the partners and the withdrawal of cash from investment by one partner, in order to make the net investment of each equal to \$5,000.00, the amount agreed upon.

Exercise No. 86, Admission of a Partner.

D. P. Winters and L. S. French are partners operating a drug business under the firm name of Winters & French. They decide to consolidate with S. M. Smiley who is operating a drug store as an individual. The assets, liabilities, and proprietorship of the partnership and of the individual are shown below:

WINTERS & FRENCH Post-closing Trial Balance, June 30, 192..

Cash.....	3,970	76		
Inventory—Drugs.....	4,051	80		
Inventory—Merchandise.....	1,926	75		
Office Equipment.....	300	00		
Reserve for Depreciation of Office Equipment.....			27	50
Store Fixtures.....	850	00		
Reserve for Depreciation of Store Fixtures.....			85	00
Soda Fountain Equipment.....	500	00		
Reserve for Depreciation of Soda Fountain Equipment.....			25	00
Office Supplies.....	66	40		
Soda Fountain Supplies.....	132	45		
Insurance.....	254	80		
Notes Payable.....			6,530	00
Accounts Payable.....			236	42
Accrued Interest Cost.....			300	00
Accrued Rent.....			150	00
D. P. Winters, Capital.....			2,349	52
L. S. French, Capital.....			2,349	52
	12,052	96	12,052	96

SMILEY'S PHARMACY Post-closing Trial Balance, June 30, 192..

Cash.....	7,424	65		
Notes Receivable.....	256	27		
Accounts Receivable.....	1,942	32		
Reserve for Bad Debts.....			46	12
Inventory—Drugs.....	601	20		
Inventory—Merchandise.....	434	12		
Accrued Interest Earned.....	24	35		
Store Fixtures.....	269	50		
Reserve for Depreciation of Store Fixtures.....			26	95
Soda Fountain Equipment.....	150	00		
Reserve for Depreciation of Soda Fountain Equipment.....			7	50
Insurance.....	132	50		
Notes Payable.....			950	00
Accounts Payable.....			1,296	52
Accrued Interest Cost.....			3	00
Accrued Wages.....			22	50
S. M. Smiley, Capital.....			8,882	32
	11,234	91	11,234	91

(1) Prepare in journal form the entries necessary to open the books of the new partnership.

(2) Post these entries and prepare a Trial Balance.

Exercise No. 87, Retirement of a Partner.

G. H. Graton, T. R. Rollins, and L. B. Bennett are operating a wholesale grocery business as partners. Mr. Rollins wishes to retire. His capital account at this time shows a debit of \$1,862.55 and a credit of \$16,981.50; his personal account shows a debit of \$2,652.40 and a credit of \$2,000.00. He agrees to accept in settlement for his interest in the business the following: cash, \$5,843.50; a note for \$5,000.00 signed by the new firm of Graton & Bennett; a note for \$2,000.00 held by the firm and signed by a customer (accrued interest, \$56.50); an auto-

mobile owned by the firm, the cost of which was debited to the Delivery Equipment account, \$2,000.00 (depreciation, \$400.00); merchandise from stock, \$500.00.

Prepare, under date of August 10, in journal form the entries to close Mr. Rollins' personal account and to record the agreement; debit the excess to a Loss on Purchase of Partner's Interest account.

Exercise No. 88, Death of a Partner.

M. Abbott, T. Bronner, and F. Clayton were partners in a retail farm implements business, sharing profits equally. December 31 the books were closed. March 15 of the following year Mr. Abbott died. March 17 C. Breese was appointed administrator for Mr. Abbott and required a statement of the business as of March 15. The Trial Balance prepared at the close of business on that date was as follows:

ABBOTT, BRONNER & CLAYTON Trial Balance, March 15, 192..

Cash.....	14,333	65		
Notes Receivable.....	1,696	71		
Accounts Receivable.....	7,562	90		
Reserve for Doubtful Accounts.....	21	50	178	20
Furniture and Fixtures.....	950	00		
Reserve for Depreciation of Furniture and Fixtures.....	25	00	142	50
Insurance.....	962	30		
Office Supplies.....	630	40		
Advertising Material.....	1,412	69		
Notes Payable.....			10,000	00
Accounts Payable.....			8,562	98
M. Abbott, Capital.....			5,495	60
M. Abbott, Personal.....	244	16		
T. Bronner, Capital.....			4,987	35
F. Clayton, Capital.....			4,643	86
F. Clayton, Personal.....			361	29
Sales.....			30,103	65
Sales Returns and Allowances.....	230	83		
Merchandise Inventory.....	2,346	95		
Purchases.....	26,431	70		
Freight In.....	3,775	90		
Purchases Returns and Allowances.....			341	36
Selling Expense.....	2,177	19		
Administrative Expense.....	1,868	31		
Interest Earned.....			251	60
Interest Cost.....	398	20		
	65,068	39	65,068	39

Merchandise Inventory, March 15, 192.., \$12,594.35.

Accrued interest on notes receivable, \$87.95.

Accrued interest on notes payable, \$136.62.

Unpaid wages: selling department, \$450.00; office, \$350.00.

Unpaid rent for the month of March, \$150.00.

Insurance expired, \$637.84. One-half of expired insurance is on merchandise and one-half on furniture and fixtures; of the expired insurance on furniture and fixtures, one-fourth is applicable to administrative expense and three-fourths to selling expense.

Office supplies on hand per inventory, \$125.05.

Advertising material on hand per inventory, \$265.77.

Depreciation on furniture and fixtures, \$9.90 (yearly depreciation, 5% of cost); of this, one-fourth is applicable to administrative expense and three-fourths to selling expense.

Reserve for Doubtful Accounts, one-twelfth of 1% of net sales.

Prepare (1) the adjusting entries, (2) the Trial Balance from the ledger after these entries are posted, (3) the Balance Sheet, (4) the Statement of Profit and Loss, (5) the closing entries, (6) the post-closing entries, and (7) the post-closing Trial Balance after these entries are posted.

April 1 the administrator accepted \$6,000.00 cash in full settlement for Mr. Abbott's interest in the business. Record this transaction in journal form.

Exercise No. 89, Trial Balance, Statements and Ledger Closing.

On December 31, 1922, the accounts in the ledger of T. B. Austin & Co. show the following balances:

Cash.....	\$ 8,200.00
Notes Receivable.....	1,480.00
Accounts Receivable.....	10,800.00
Reserve for Doubtful Accounts.....	430.00
Furniture and Fixtures.....	800.00
Res. for Dep. of Furn. and Fix.....	200.00
Delivery Equipment.....	2,200.00
Res. for Dep. of Del. Equipment.....	660.00
Buildings.....	3,000.00
Res. for Dep. of Buildings.....	300.00
Land.....	3,500.00
Insurance.....	290.00
Office Supplies.....	474.40
Advertising Material.....	756.95
Notes Payable.....	5,000.00
Accounts Payable.....	11,000.00
T. B. Austin, Capital.....	16,800.00
A. R. Black, Capital.....	16,800.00
Sales.....	48,000.00
1921 Inventory.....	3,300.00
Purchases.....	49,000.00
Freight and Drayage In.....	3,450.00
Buying Expense.....	960.00
Selling Expense.....	7,500.00
Delivery Expense.....	1,240.00
Administrative Expense.....	2,275.00
Interest on Notes Receivable.....	58.95
Discount on Purchases.....	664.00
Interest on Notes Payable.....	395.00
Discount on Sales.....	291.60

1. Prepare a Trial Balance from these account balances.
2. Make the adjusting entries for the following:
 - (a) 1922 inventory, \$28,762.95.
 - (b) Accrued interest on notes receivable, \$25.60.
 - (c) Accrued interest on notes payable, \$31.80.
 - (d) Unpaid pay roll: office, \$120.00; selling department, \$160.00.
 - (e) Expired insurance: furniture and fixtures, \$16.75; delivery equipment, \$24.50; buildings, \$37.00; stock of merchandise, \$60.95.
 - (f) Office supplies used, \$395.45; advertising material used, \$710.10.
 - (g) Reserves for depreciation: furniture and fixtures, 5%; delivery equipment, 6%; buildings, 2%.
 - (h) Reserve for Doubtful Accounts: 1% of accounts receivable.
3. On a sheet of ledger paper open the accounts which are affected by the entries, post, and take a second Trial Balance.
4. Prepare a Balance Sheet and Statement of Profit and Loss assuming that the profit is shared equally by the partners.
5. Make the entries to close the ledger.
6. Make the post-closing entries and prepare a post-closing Trial Balance.

Exercise No. 90, Changing from a Partnership to a Sole Proprietorship.

Ammon and Banbury are partners operating a motion picture theater. Neither receives a salary, the profit being shared equally at the end of the year.

Ammon receives injuries in an automobile accident which necessitate his retiring from active management. Banbury wishes to continue his connection with the theater, but does not care to assume the risk of management on his own responsibility. It is agreed that Banbury shall withdraw his interest as shown by the ledger, payable one-half cash and one-half note, and that he shall be retained as manager of the theater, receiving, in addition to a monthly salary of \$150.00, one-fifth of the yearly profits. The partners' accounts appear in the ledger as follows: Ammon, Capital, Cr., \$13,050.00; Ammon, Personal, Dr., \$550.00; Banbury, Capital, Cr., \$11,300.00; Banbury, Personal, Cr., \$700.00. Statements prepared December 31, show that the net profit for the year is \$6,800.00.

1. Make the entries in journal form (a) to transfer the net profit to the partner's capital accounts; (b) to close Banbury's personal account into his capital account; (c) to record the note and cash given Banbury for his interest.

2. Assuming that the net profit the first year after the new agreement goes into effect is \$7,000.00, (a) record in journal form the distribution of the net profit; (b) state whether the compensation received by each under the partnership agreement was more or less than under the new agreement.

Exercise No. 91, Accruals and Deferred Items.

At the close of the fiscal period April 10, the accruals and deferred items to be recorded on the books of Binner & Johnson are as follows:

Interest accrued on notes receivable.....	\$275.60
Interest accrued on notes payable.....	218.65
Taxes accrued (Administrative Expense).....	214.40
Wages unpaid:	
Administrative division of the office.....	116.50
Purchasing division of the office.....	55.90
Selling division of the office.....	251.65
Sales clerks in store.....	310.00
Drivers of delivery trucks.....	125.60
Rent for month paid in advance April 1.....	150.00
Insurance:	
Payments, per Insurance account:	
On merchandise.....	865.40
On delivery equipment.....	352.50
On building.....	250.00
Unexpired, per insurance policy record:	
On merchandise.....	207.90
On delivery equipment.....	75.75
On building.....	107.50

Material:

Office supplies purchased per Office Supplies account.....	721.65
Office supplies on hand per inventory.....	<u>119.60</u>
Advertising material purchased per Advertising Material acct.....	625.50
Advertising material on hand per inventory.....	<u>144.50</u>
Total stamps purchased per Stamps account.....	801.50
Stamps used in office.....	85.50
Stamps used in advertising department.....	261.08

1. Make the adjusting entries (a) to record the accrued assets and liabilities, (b) to record the prepaid rent in the proper account, (c) to transfer the expired insurance to the proper operating accounts, and (d) to transfer the value of material used to the proper operating accounts.

2. Make the post-closing entries to transfer the accrued assets and liabilities and the prepaid expense in (a) and (b) above, to the proper operating accounts.

As explained in Chapter XXI, such accounts as Unpaid Wages may remain open until the next fiscal period, but this exercise requires that all accrued asset and liability accounts be closed.

QUESTIONS

1. (a) What account is credited for that part of the profit which is to be withdrawn by a partner? (b) What account is credited for that part which is to be left in the business?
2. Robert Johnson invests \$5,000.00 and withdraws \$1,200.00; James Carrel invests \$4,000.00 and withdraws \$800.00. The business is sold for \$10,500.00 cash. How much of this cash will each partner receive, the profit and cash to be divided in the same proportion as the net investment?
3. If amounts withdrawn by a partner as compensation for his services are debited direct to his capital account, what effect will this have (a) on the operating cost of the business and (b) on the net profit of the business?
4. If there are three partners in a business and one of them sells his interest in the business to one of the other partners for cash, (a) what entry will be required to record this sale? (b) If he sells to the other two partners and payment is made from the assets of the partnership, what entry will be made?
5. If there are three partners in a business and one of them (with the consent of the others) sells his interest for part cash and part note to a person who is not connected with the firm, what entry will be required to record this transaction?
6. If a partnership business composed of two partners has been operated at a loss of \$4,000.00 during the fiscal period, and the two partners, who share this loss equally, each invests \$1,500.00 cash and has \$500.00 debited to his personal account to cover this loss, what entry will be made to record the transaction?
7. If the profit resulting from the operations of a partnership business during a fiscal period is \$6,000.00 and the two partners agree to withdraw all of this, one of them accepting a building and lot recorded on the books of the partnership as "Real Estate, \$2,750.00" as his share of the profit and the other accepting \$3,000.00 cash as his share, how will the transaction be recorded?
8. One of the partners is to receive five per cent of the total sales as his compensation for services rendered the partnership, maintaining his own automobile for use in calling on customers. At the close of the business year the total sales amount to \$152,000.00, and his drawing account shows a debit balance of \$4,900.00 for amounts withdrawn on account of commission. What entries will be required to record the commission and the check paid him for the balance of his commission?
9. J. C. Strickler is one of the partners in a mercantile business. At the close of the business year, his personal account shows a credit balance of \$1,400.00 for amounts advanced to the partnership and for salary during the year. He agrees to accept in settlement of this an automobile purchased by the partnership at the beginning of the previous fiscal period for \$1,850.00 as recorded in the Delivery Equipment account, and depreciated at the rate of ten per cent for each fiscal period. What entries are necessary to record this transaction?
10. T. B. Bridges and L. W. Peart are partners in a mercantile business. At the close of the fiscal period Mr. Bridges' capital account shows a credit balance of \$6,752.80 and Mr. Peart's capital account, a credit balance of \$5,522.50. Mr. Peart pays Mr. Bridges \$3,500.00 cash for one-half of his interest in the business, thus giving Mr. Peart a three-fourths interest and Mr. Bridges a one-fourth interest. What entry is necessary to record this transaction?

Chapter XXIV

CONSIGNMENTS

The Purpose of this Chapter is to explain the method of recording transactions affecting merchandise received by the business or shipped by the business on consignment, and to illustrate, through the practice set, some of the transactions performed by a commission business. While the tendency in modern business is to buy and sell, yet there are many cases in which it is to the advantage of all parties concerned to make sales on consignment.

§ 225. A **Consignment** is merchandise sent by the owner to another to be sold for the owner. The owner of the merchandise sent as a consignment is known as the consignor and the one to whom the merchandise is sent as the consignee. The consignment is at the risk of the consignor and belongs to him until it is sold by the consignee.

The consignor consigns the merchandise to the consignee; the consignee sells the merchandise and pays the consignor for it. As a rule, the report of sales for each consignment is made after all merchandise in the consignment has been sold. The consignee may have in his possession more than one consignment from the same consignor, but a separate record is kept of the sales of the merchandise in each consignment.

§ 226. **The Relation of the Consignor and Consignee** is that of principal and agent. The agent must follow the instructions of the principal in regard to the sale of the merchandise which belongs to the principal; in the absence of any specific agreement in regard to the method of sale, the agent is supposed to follow the trade custom of the business in which he is engaged. The agent should keep the merchandise of his principal separate from his own merchandise and must take the same care of it; otherwise, he will be responsible for any damage that may occur through his negligence.

§ 227. **Compensation of Consignee.** The consignee receives a fee for the sale of merchandise on consignment; this fee is referred to as commission and is based on an agreed percentage of the net sales. The commission is the consignee's profit, that is, his income from the services rendered in connection with selling consigned goods. A profit will accrue to the consignor if he receives from the consignee a greater amount than the cost of merchandise plus the cost of sales.

§ 228. **Purpose of Consignments.** Merchandise is consigned because its nature is such that the consignee does not wish to purchase it or because the consignor believes that it will be to his advantage to offer it for sale on consignment. Live stock, cotton, fruit, vegetables, poultry and eggs are examples of the class of merchandise sold on consignment. These examples illustrate the class of merchandise that may be offered for sale on consignment, and are not given to convey the idea that such merchandise is always sold in this manner. Trade customs and market conditions govern, to a large extent, the marketing of all classes of merchandise.

§ 229. **Business Forms and Accounts.** The business forms required in connection with a consignment consist of the "invoice of shipment" and the "account sales". The additional accounts necessary in connection with consignments consist of Consignment Out, Consignment In, Commission, Storage, and Drayage.

§ 230. **The Invoice of Shipment** is the business form used by the consignor on which to list the goods shipped to the consignee on consignment. It has the same relation to a consignment as the sales invoice has to a sale, but differs in

that the title to the merchandise shipped on consignment remains in the shipper while the title to merchandise sold passes to the purchaser. Illustration No. 98 shows one form of invoice of shipment.

Invoice of Shipment.

June 12, 19__

Invoice of Flour

Shipped via _____ Consigned to Byron Brothers,

216 Main St. Centerville, to be sold for account and risk of

C. W. KEELAND & Co., Consignors.

50	brls	Superior Flour @ \$2.60	180	00		
50	"	Fancy "	3.30	165	00	
50	"	Peerless "	3.00	150	00	495.00

Illustration No. 98, Invoice of Shipment.

§ 231. The Account Sales is the business form used by the consignee for reporting to the consignor the sales and expenses in connection with the consignment. The information shown in it consists of the date, name and address of the

Account Sales

CINCINNATI, OHIO JUL 5 19__

M Southern Fruit Veg. Co Address Atlanta

Below please find account sales of 200 crates Berries

Sold by Thompson & Strong Commission Merchant

Received July 7 19__ and sold for account of yourselves

DATE	CHARGES	Folio	AMOUNT	DATE	SALES	Folio	AMOUNT
July 7	Freight	C3	48.62	July 7	50 crates at 3.25	S1	162.50
5	Drayage	F1	10	7	50 " " 3.25	S1	162.50
	Returns			3	100 " " 3.20	C2	320
	"						
	Advances						
	"						
5	Storage	F1	10				
	Insurance						
5	Commission	F1	64.50				
5	Net Proceeds	C3	511.88				
			64.5				64.5

Illustration No. 99, Account Sales.

consignee, name and address of the consignor, date the consignment was received, the various charges in connection with the consignment, a description of each sale from the consignment, the total sales, and the net amount due the consignor. Where there are a number of consignments, the consignee may, by the use of carbon paper, prepare the account sales as the debits and credits are posted. Illustration No. 99 shows one form of account sales.

CONSIGNMENT OUT ACCOUNT

§ 232. **The Purpose of this Account** is to show the consignor's record of the transactions with the consignment. The title of the account should include the term "consignment" and the name of the consignee, also "out" or "to" to indicate the nature of the account; thus "Consignment Out, John Smith & Co." or "Consignment to John Smith & Co." indicates that merchandise belonging to the business for which the books are being kept has been shipped to John Smith & Co. to be sold on consignment.

Debit Each Consignment Out Account:

¶ 1. For transportation (a) prepaid on the consignment, and (b) paid on merchandise belonging to the consignment returned by the consignee.

Credit Each Consignment Out Account:

¶ 2. For the net proceeds of the consignment as shown by the account sales.

Should the consignee send cash or accept a draft in part payment of the consignment, such part payments are credited to the consignment and deducted from the net proceeds.

¶ 3. *The Balance of Each Consignment Out Account* shows the net returns from the sales of merchandise belonging to the consignment; it is shown on the Statement of Profit and Loss as a return from sales.

If desired, the balance of each Consignment Out account may be closed into one account with Consignment Sales and the balance of this account shown on the Statement of Profit and Loss. The purpose of consigning merchandise is to effect sales, hence all returns from these sales are an addition to the sales of merchandise from stock; the amount of the consignment sales is shown separate from sales out of stock so that the management may have this additional information.

§ 233. **Inventory of Consignments Out.** Merchandise in the hands of the consignee is one of the assets of the business the same as merchandise in stock. No account sales from a consignee at the close of a fiscal period indicates to the consignor that the merchandise is still in the possession of the consignee. The value of this merchandise at cost price should be shown on the Balance Sheet as an asset under the caption "Consignment Goods". The value of merchandise on consignment at the close of the fiscal period does not affect the consignment account because this account was not debited with its value when it was shipped.

The debits (cost of shipping, etc.) to each Consignment Out account for which there has been no report of sales should be shown on the Balance Sheet in the same manner as deferred charges; the credits (part payment on account of goods consigned) to each Consignment Out account for which there has been no report of sales, should be shown on the Balance Sheet as a liability. Amounts paid for sending merchandise on consignment constitute a selling expense, but if no returns have been received on the consignment at the close of the fiscal period, these should not be included as a current expense, but should be carried over into the next period. Amounts received from the consignee, and credited to a Consignment Out account, are liabilities at the close of the fiscal period, because the value of merchandise consigned is shown in the Inventory account; unless these amounts are shown as liabilities, the statement will not be correct, because the account with cash or some other asset was debited at the time the credit was made.

CONSIGNMENT IN ACCOUNT

§ 234. **The Purpose of this Account** is to show a record of the transactions which the consignee has with the merchandise consigned to him for sale. The title of the account should contain the term "consignment" and the name of the consignor, also the word "in" or "from" to indicate the nature of the account; thus "Consignment In, James Brown" or "Consignment from James Brown" indicates that merchandise has been received on consignment from James Brown by the business for which the books are kept. If desired, the consignments may be numbered consecutively and this number, together with the term "consignment" used as the title of the account; this method is followed in Illustrations Nos. 100-103.

Debit Each Consignment In Account:

- ¶ 1. For (a) amounts paid for freight, drayage and service costs; (b) cash or other assets given the consignor on account of sales; (c) merchandise belonging to the consignment returned by customers; and (d) commission, storage, insurance and other costs.

Credit Each Consignment In Account:

- ¶ 2. For the sales of merchandise belonging to the consignment, either for cash or on account.

¶ 3. *The Balance of Each Consignment In Account* shows an asset if the debit side is the larger, or a liability if the credit side is the larger. A debit balance indicates that the consignee has paid more for handling the goods than he has received from their sale; a credit balance indicates that the consignee has received more for the sale of the goods than the charges against the same. The balance of each Consignment In account is shown as a current asset or a current liability on the Balance Sheet prepared for the consignee.

If desired, the various consignment in accounts may be kept in a separate ledger and a controlling account with Consignments In or Consignment Ledger maintained in the general ledger. With this plan, the controlling account is debited and credited with totals only, special columns being provided for amounts posted to the various consignment in accounts in the consignment ledger.

§ 235. **Inventory of Consignments In.** If at the close of the fiscal period there is in stock merchandise which belongs to consignments from others, the value of this merchandise is not shown as an asset on the Balance Sheet of the consignee because it does not belong to him. The interest of the consignee in merchandise consigned to him is shown on the Balance Sheet by the various Consignment In accounts.

COMMISSION ACCOUNT

§ 236. **The Purpose of this Account** is to show the net amount received as commission for selling merchandise on consignment.

Debit the Commission Account:

- ¶ 1. For any adjustments which reduce the amount of income from commission as shown by the credit to this account.

Credit the Commission Account:

- ¶ 2. For amounts deducted as commission from the proceeds of consignments at the time the account sales is rendered.

¶ 3. *The Balance of the Commission Account* shows the net returns from commission; it is shown as an operating or non-operating income on the Statement of Profit and Loss depending on the nature of the business.

July 1, 19

L.F.	Name of Account and Explanation	General Dr.	Cons. Ledger Dr.	General Cr.
	<i>(Synopsis of Partnership Agreement)</i>			
	1			
	Inventory July 1, 19	1550		
	Furniture and fixtures	450		
	Building	2200		
	Land	1800		
	Notes Payable			1000
	Notes Payable			1000
	M. R. Thompson, Capital			4000
	Investment in partnership			
	2			
	Purchases	84334		
	Granger Bros. (49- $\frac{3}{10}$ - $\frac{7}{10}$)			26948
	W. H. Davenport & Son (45- $\frac{9}{10}$ - $\frac{7}{10}$)			18762
	Donaldson Bros. (49 net 30 days)			38624
	Purchase invoices Nos. 1, 2 and 3			
	4			
	Consignment No. 1		8450	
	Drayage (5¢)			10
	Storage (5¢)			10
	Commission (10%)			6450
	Rendered an account sales, Sent check for net proceeds.			
	29			
Col. 6	Orr & Jackson	20		
	Consignment No. 17			20
	tenorates Tomatoes (Cons No. 17) returned and replaced from Consignment No. 17	257273	223215	480488
	✓ Total Credits			480488
	Consignment Ledger, Dr.	223215	223215	
	✓ Total Debits	480488		

Illustration No. 100, General Journal.

EXPLANATION. Two debit columns are provided, one for accounts in the consignment ledger and the other for accounts in the general ledger; only one credit column is necessary as the accounts in the consignment ledger are seldom credited from the general journal. Each amount entered in the "Consignment Ledger, Dr." column is posted to the debit of an account in the consignment ledger; the total of this column is posted to the debit of the Consignment Ledger account in the general ledger at the end of the month.

*The break indicates a number of entries omitted.

CONSIGNMENTS.

Cash				Receipts		
Date	L.F.	Account Credited	Explanation	General Cr	Cons. Ledger Cr	Sales Cr
July 19						
1		J. B. Strong Capital	Investment	4000		
3	✓	Sales	Cash sales			162 97
		Consignment No. 1	100 cts. Berries @ 3.20		320	
		Consignment No. 2	25 doz. Melons @ 3.50		1 90	
		Consignment No. 3	50 shk. Beans @ 1.75		87 50	
6	✓	Sales	Cash sales	4000	497 50	162 97
						136 95
17		Notes Receivable	Discounted notes 1/2	254 73		
		Interest Earned	On above note	180 31		
18		C. L. Wiswell & Son	for full of acct	574 50	452	248 56
22		M. & M. Cons. Out No. 1	Net proceeds	1589 50		
24	✓	Sales	Cash sales			387 42
		Consignment No. 8	20 doz. Melons @ 3.50		76	
		Central Hotel	for full of acct	729 54	1653 15	1956 81
		Sales Cr.		1956 81		1956 81
		Consignment Ledger Cr.		1653 15	1653 15	
		Cash Dr. 9356.45	(10905.38 - 1548.93)	10905.38		

Illustration No. 101, Receipts Side of Cash Book.

EXPLANATION. The ruling is similar to that in Illustration No. 29, except that two special columns are provided, one for cash sales of merchandise belonging to consignments and the other for cash sales of merchandise from stock. Each amount entered in the "Consignment Ledger, Cr." column is posted to the credit of an account in the consignment ledger; the total of this column is posted to the credit of the Consignment Ledger account in the general ledger at the end of the month.

STORAGE ACCOUNT

§ 237. **The Purpose of this Account** is to record the storage charges on consignments. Storage refers to the charges made by the consignee for the space occupied by the merchandise belonging to the consignor. This storage charge is based on the rent cost to the consignee.

Debit the Storage Account:

- ¶ 1. For allowances which reduce the income from storage as shown by the credit to this account.

Credit the Storage Account:

- ¶ 2. For the amount deducted as storage from the sales of each consignment at the time the account sales is rendered.

¶ 3. *The Balance of the Storage Account* shows the income from storage. It is shown as one of the non-operating incomes on the Statement of Profit and Loss. If desired, the credit to the Storage account may be shown on the Statement of Profit and Loss as a deduction from the cost of rent.

*The break indicates a number of entries omitted.

Cash			Payments		
Date	L.F.	Account Debited.	Explanation	General Dr	Cons Ledger Dr Purchases Dr.
July 19		Freight In	On merchandise	136 50	
		Consignments No. 1	Freight		48 62
		Consignments No. 2	"		35 50
		Consignments No. 3	"		62 16
		Delivery Equipment	Truck	800	
		Purchases	Brown Bros.	738 50	500 00
5		Consignments No. 1	Net proceeds		519 88
16		Consignments No. 1	Net proceeds		520
		C C Watson & Bro	Net net proceeds	100	
17		Purchases	G. D. Davis	197 50	360
18		Freight In	On merchandise	265 48	360
		Selling Expense	J. B. S. salary	150	
		Purchases, Dr		2961 54	1790 31
		Consignments Ledger, Dr.		2772 53	2772 53
		Cash Cr		1790 31	
		Balance		7424 38	
				3481	
				10905 38	

Illustration No. 102, Payments Side of Cash Book.

EXPLANATION. The ruling is similar to that in Illustration No. 30, except that two special columns are provided, one for accounts in the consignment ledger and the other for cash purchases of merchandise. Each amount entered in the "Consignment Ledger, Dr." column is posted to the debit of an account in the consignment ledger; the total of this column is posted to the debit of the Consignment Ledger account in the general ledger at the end of the month.

DRAYAGE ACCOUNT

§ 238. **Drayage** refers to the cost of hauling the merchandise belonging to the consignor, either from the station to the warehouse or from the warehouse to the customers. The amount charged the consignor is approximately the same as the cost to the consignee. The debits and credits to this account are the same as those to the Storage account, because their nature is the same. The balance, which will be a credit, may be shown on the Statement of Profit and Loss as a non-operating income or as a deduction from the total cost of drayage.

COMMISSION SET

This is a practice set without vouchers consisting of the transactions for two months, performed by Thompson & Strong, partners engaged in the commission business. The transactions are separate from the text and are included with the books of account necessary to record them. The purpose of this set is to provide practice in recording transactions peculiar to a commission business.

*The break indicates a number of entries omitted.

QUESTIONS ON CONSIGNMENTS.

July 2, 19

Inv No.	L.F.	Name of Account and Explanation	Cons No.	Cons Ledger Cr.	Sales Cr.	Accts Rec Dr.
1		D.B. Anderson, Clinton				328 80
		50 crates Berries	325 1	162 50		
		5 doz Melons	322 2	28 80		
		10 bu Onions	175		17 50	
		100 " Potatoes	120		120	
		"				
2		Robt. Foster & Son, 916 Broadway City.				1904 28
		10 baskets Beans	175 3	17 50		
		50 crates Berries	325 1	162 50		
		100 sacks Corn, 9276*	.75		124 23	
		29				
19		Armstrong Bros, City				257 50
		25 crates Tomatoes	200 17	50		
		50 baskets Peas	165 14	82 50		
		100 bu. Potatoes	125		125	
				1993 25	2561 07	4854 32
		31				
		Accounts Receivable				4854 32
		Sales			2861 07	
		Consignment Ledger		1993 25		

Illustration No. 103, Sales Journal.

EXPLANATION. This sales journal is similar to Illustration No. 19, except that a special column is provided for sales of merchandise belonging to consignments. Each amount entered in the "Consignment Ledger, Cr." column is posted to an account in the consignment ledger; the total of this column is posted to the credit of the Consignment Ledger account in the general ledger at the end of the month.

QUESTIONS

- What entry is made for the value of merchandise received from the owner to be sold for him?
- What is the difference between merchandise purchased by the business and merchandise received by it on consignment, in so far as title is concerned?
- Why is it advisable for the consignee to keep consigned goods separate from goods owned by him?
- What is the difference between a consignment inward and a consignment outward?
- How does the consignor secure a profit on the merchandise on consignment? the consignee?
- How is a Trial Balance made when a controlling account with Consignment Ledger is kept in the general ledger?
- How is the value of merchandise belonging to a consignment in shown on the Balance Sheet?
- How is the value of merchandise belonging to a consignment out shown on the Balance Sheet?
- What is the purpose of (a) the Storage account, and (b) the Drayage account?
- How are the balances of the Storage and Drayage accounts shown on the Statement of Profit and Loss?

Appendix A

SINGLE ENTRY BOOKKEEPING

The Purpose of this Appendix is to explain and illustrate Single Entry bookkeeping, sometimes referred to as a method of keeping books. The information given will be of assistance to the student who may be required to keep books for one who thinks there is a Single Entry method; it will also be useful if the student is called upon to change from this so-called method to Double Entry.

§ 239. **Single Entry Bookkeeping.** Bookkeeping is the systematic recording of business transactions as explained in § 8. When the values received and the values parted with in each transaction are recorded, the method is usually referred to as "Double Entry". Single Entry bookkeeping is best defined as any method that is not Double Entry. This means that in Double Entry bookkeeping the values received and the values parted with are always recorded, but in Single Entry the values received and the values parted with may be recorded in some transactions, but in others only the values received or the values parted with are recorded.

§ 240. **Comparison.** In Single Entry the record may be made according to the wishes of those interested, and any desired accounts kept; in Double Entry the record and accounts kept must conform to certain principles, which can not be changed; the name of an account might be changed, but its real meaning must remain the same. In Single Entry, the bookkeeper has no check on his accuracy in posting, footing accounts in the ledger, and making the Statement of the Business; in Double Entry he proves the postings and footings by the Trial Balance and the net profit through the Balance Sheet and Statement of Profit and Loss.

The advantages of Double Entry are so apparent that this method is used by every up-to-date business man who employs a bookkeeper, and by many who keep their own books. The reason Single Entry is used in many cases is that the one who keeps the books knows nothing of the many advantages of Double Entry.

§ 241. **Books of Account.** Any book used with the Double Entry method may be used with Single Entry; but the day book, cash book, and ledger are the most popular with those who claim to "know" the latter method. Of course, they do not know any method, but only know what they want their books to show, and can get the desired results by using these three books.

§ 242. **Day Book.** This is a book of original entry. All transactions, except those in which cash is received or paid, are entered in this book in the order in which they occur. The two money columns do not indicate debits and credits. Hence it is necessary to write Dr. and Cr. (abbreviation of debit and credit) after the name of the account. This shows to which side of the account in the ledger the amount is to be posted. Amounts to be posted are placed in the second column on the same line as the name of the account. Illustration No. 104 shows the form of day book to be used.

§ 243. **Single Entry Cash Book.** Any desired form of ruling may be used. The form given in Illustration No. 105 shows one very popular with those who keep a cash book in connection with a Single Entry set of books. The ruling is similar to the ordinary journal; receipts are entered in the first column, and payments in the second column. When the cash book is ruled at the end of the month, the balance is entered in the credit column, the word "Balance" written at the left, the two columns ruled, and the balance brought down, as in Illustration No. 105.

§ 244. **Ledger.** This book may be similar to any ledger used with a Double Entry set of books; that is, it may have the regular ledger ruling or any special ruling adapted to the needs of the business. In every case it must be ruled with

two money columns, one for the debit amounts, and one for the credit amounts. Some blank book manufacturers make a book which is labeled "Single Entry Ledger". This is ruled like the day book and provided with an index. This form is used when the day book and cash book are omitted, and the transactions are entered direct in the ledger.

December 2, 192

W. H. La Rue	Cr.	1250
Notes Payable (60 days)	Cr.	500
Notes Payable (90 days)	Cr.	500
Bought stationery stock for \$2250 ⁰⁰		
Paid cash \$1000 ⁰⁰ ; gave two notes, \$500 ⁰⁰ each; due in 60 and 90 days; balance to be paid before January 1st.		
3		
Belknap Stationery Co., Louisville, Cr.		150
Bought merchandise on account per invoice of this date		
3		
C. G. McClure, City	Dr.	4250
1 section Base and Top Y & E. File	25	
1 gross Note Books	1750	

Illustration No. 104, Single Entry Day Book.

Cash Book

			Receipts	Payments
Dec. 1	C. W. Ogden, Cap.	Investment	1500	
2	W. H. La Rue	Part payment stock		1000
5	✓ Gouffon Transfer Co.	Freight and drayage		1487
6	W. H. La Rue	On account		150
	✓ Expense	Employees' wages		6540
	✓ Sales	Sundry cash sales	20409	
10	University School	In full of account	175	
11	✓ Expense	Light, phone and stamps		2460
13	Graham Paper Co.	In full of account		19642
	✓ Discount	On above	589	
31	✓ Gouffon Transfer Co.	Freight and drayage	382533	6275
	✓ Balance			272575
				109960
			382533	382533
Jan. 1	✓ Balance		109960	

Illustration No. 105, Single Entry Cash Book.

*The break indicates a number of entries omitted.

TRANSACTIONS FOR DECEMBER.

Record the following transactions in the Single Entry day book and cash book, and post to the ledger when instructed. Accounts will be kept with Notes Receivable, Notes Payable, C. W. Ogden Capital, persons from whom merchandise is purchased on account, and persons to whom merchandise is sold on account.

1. C. W. Ogden invests \$1,500.00 in the retail stationery and office supplies business.

Enter in the cash book as in Illustration No. 105.

2. Bought from W. H. LaRue, City, stock of stationery and office supplies for \$2,250.00, paying cash \$1,000.00, two notes of \$500.00 each, due in 60 and 90 days, balance to be paid before January 1st.

Enter in the day book and cash book as in Illustrations Nos. 104 and 105.

3. Bought from Belknap Stationery Co., Louisville, on account, stationery per invoice of this date, \$150.00.

Enter in the day book as in Illustration No. 104.

Sales on account: C. G. McClure, City, 1 section, base, and top, Y. & E. files, \$25.00; 1 gross note books, \$17.50. University School, University Park 1 multigraph, \$170.00; 1 doz. ribbons, \$5.00.

Enter in the day book as in Illustration No. 104.

4. Bought from Graham Paper Co., St. Louis, stationery per invoice of the 3d, \$196.42; terms, 3/10, n/30.

The terms indicate that 3% may be deducted if payment is made within ten days.

5. Paid Gouffon Transfer Co. \$14.87, freight and drayage on above goods.

Enter in the cash book as in Illustration No. 105. No account is kept with Freight and Drayage, hence the check mark (✓) in the L. F. column.

6. Sale on account: C. J. McDaniels, City, 1 ledger, \$3.50; 1 doz. pencils, 75c; 2 boxes typewriting paper at \$1.00; 1 dictionary, \$14.00.

Paid W. H. LaRue \$150.00 on account.

Paid employees' wages to date, \$65.40.

Cash sales to date, \$204.09.

Post the entries in the day book and cash book. Each amount in the second column of the day book is posted to the debit or credit side of the account written on the same line with it; the debit or credit is indicated by "Dr." or "Cr." Each amount in the first column of the cash book is posted to the credit side of the account written on the same line with it, unless it has a check mark in the L. F. column; each amount entered in the second column is posted to the debit side of the account written on the same line with it, unless it has a check mark in the L. F. column. Allow one-fifth of a page for each account.

8. Bought from American Stationery Co., Cincinnati, merchandise per invoice of the 6th, \$264.75; terms, 5/10, n/60.

9. Sale on account: R. R. Oglesby & Co., Hamilton, 1 typewriter, \$100.00; 1 desk, \$35.00; 5 gross note books at \$14.00; 2 sections Y. & E. files with top and base, \$64.00.

10. Received \$175.00 from University School in full of account.

11. Paid electric light bill, \$13.60; phone rent, \$6.00; and stamps, \$5.00.

Sales on account: Ormendorff Bros., City, 1 set of Dickens, \$70.00. City Electric Co., City, 1 gross tablets, \$17.00; 3 sections Y. & E. files at \$14.00; 1 desk, \$36.00; 5 ink wells at 25c.

12. Bought from Yawman & Erbe Mfg. Co., Rochester, merchandise per invoice of the 10th, \$136.42; terms, 60 days. Bought from Johnston Bros., City, on account, 5 gross mucilage at \$2.50.

13. Paid Graham Paper Co. amount due, less discount.

Enter in the cash book as in Illustration No. 105.

(Continued on page 250.)

(December Transactions—Continued from page 249.)

13. Sales on account: M. B. Arnstein, City, 2 gross tablets at \$17.75; 1 desk, \$39.50; 2 sections Y. & E. files at \$14.00. Bean, Waters & Co., City, 3 gross tablets at \$14.00; 1 box typewriting paper, \$1.00.

Paid cash as follows: C. W. Ogden, private use, \$50.00; employees' salaries for the week, \$86.45; Gouffon Transfer Co., freight and drayage, \$32.65.

Cash sales to date, \$291.76.

Post from the day book and cash book.

15. Collected from the following parties: C. G. McClure, \$42.50; C. J. McDaniels, \$10.00; Ormendorff Bros., \$50.00; City Electric Co., \$70.00.

Sales on account: C. G. McClure, 5 gross tablets at \$14.00; 1 desk, \$57.50. H. O. Nelson, City, 1 typewriter, \$100.00; 1 gross penholders, \$5.00; 5 boxes typewriting paper at \$1.00; 10 lbs. writing paper at 25c.

16. Paid American Stationery Co. \$175.00 on account.

This is subject to 5% discount as per terms. Be sure to debit them with the correct amount.

Sale on account: Central Business College, City, 5 gross note books at \$14.00; 1 gross tablets, \$30.00; 1 gross penholders, \$4.00; 8 gross ink at \$3.75.

17. R. R. Oglesby & Co. gave us their note due in 30 days for \$200.00 to apply on account.

Bought from Yawman & Erbe Mfg. Co., Rochester, merchandise per invoice of the 11th, \$1,254.78; terms, 60 days.

18. Sales on account: C. G. McClure, 3 typewriters at \$100.00; 1 gross pens, \$5.00; 1 doz. ribbons, \$7.50. W. R. Austin, Wilmington, 1 journal, \$6.00.

Bought from Graham Paper Co., stationery per invoice of the 15th, \$136.49; terms, 3/10, n/30.

19. Accepted Yawman & Erbe Mfg. Company's 60-day draft in full of invoice dated December 10th.

Paid W. H. LaRue \$50.00 on account.

Sales on account: Ormendorff Bros., 1 desk, \$35.00; 1 gross note books, \$18.00; 3 sections Y. & E. files at \$14.00. W. H. Pedigo, Danville, 1 desk, \$45.00; 1 chair, \$12.50; 3 gross tablets at \$17.50; 100 blotters, 25c.

20. Bought from Yawman & Erbe Mfg. Co., merchandise per invoice of the 18th, \$234.75; terms, 4/10, n/30.

Cash sales to date, \$408.50.

Withdrew \$75.00 for private use; paid employees to date, \$92.75.

Post from the day book and cash book.

22. Collected from customers as follows: M. B. Arnstein, in full; Bean, Waters & Co., in full; C. G. McClure, \$100.00; Central Business College, \$100.00.

Discounted R. R. Oglesby & Co.'s note at the bank, receiving credit for the face value, less \$3.00 discount.

Enter face of the note in the first, and discount in the second column of the cash book.

23. Sale on account: University School, 3 gross note books at \$17.00; 2 gross penholders at \$5.00; 5 gross pencils at \$4.00; 100 lbs. writing paper at 20c; 1 ledger, \$2.75.

Paid W. H. LaRue balance due him.

24. Bought from American Stationery Co., merchandise per invoice of the 22d, \$186.75; terms, 5/10, n/60.

(Concluded on page 251.)

(December Transactions—Continued from page 250.)

24. Sales on account: Central High School Supply Store, City, 2 gross journals at \$20.00; 2 gross ledgers at \$20.00; 5 gross note books at \$14.00; 10 gross penholders at \$5.00; 5 gross pencils at \$4.55; 2 gross ink at \$4.00. City Electric Co., 1 duplicator, \$75.00.

Sent Graham Paper Co. a check in full of account, less discount.

26. Central High School Supply Store settled their account in full, less 2%, per contract.

W. H. Pedigo gave us his note due in 30 days in full of account.

Paid Belknap Stationery Co., \$75.00 on account.

Bought from Standard Stationery Co., Cincinnati, merchandise per invoice of the 23d, \$62.75; terms, 60 days.

27. Sent Yawman & Erbe Mfg. Co. a New York Exchange in full of invoice dated the 18th, less 4% discount. The bank charges 50c for issuing the exchange.

Sale on account: H. O. Nelson, 1 typewriter with special keyboard, \$105.00.

29. Received from H. O. Nelson a 60-day note in full of account.

30. Bought from Chatfield & Woods, City, merchandise per invoice of the 27th, \$169.25; terms, 3/10, n/60.

31. Cash sales to date, \$268.15.

Paid employees to date, \$86.27; rent for the month, \$50.00; Gouffon Transfer Co., bill for freight and drayage to date, \$62.75.

Post all entries to date, and make a Statement of the Business as explained in § 245 and Illustration No. 106 using the following inventories: Merchandise in stock, \$2,565.87; Office Equipment, consisting of desks, chairs, safe, etc., \$200.00. Close the ledger as explained in § 246, and make the opening entry in the journal to change to Double Entry as explained in § 247 and in Illustration No. 107. When this is completed, post the entries to the ledger, take a Trial Balance and present all books for approval.

§ 245. Single Entry Statement. The net profit or net loss can always be ascertained whether the books are kept by Single Entry or Double Entry. To make a Single Entry statement proceed as follows: First, ascertain the value of all property on hand by taking an inventory. Second, list the assets and liabilities. As nothing but asset and liability accounts are kept, all debit balances are assets, and all credit balances, except the investment, are liabilities. Third, ascertain the difference between the assets and liabilities; this is the present worth of the business. If it is more than the net investment, there is a profit; if less, a loss. Illustration No. 106 shows the correct form of a Single Entry statement.

§ 246. Closing the Ledger. As each account in the ledger, except the proprietor's Capital account, shows an asset or a liability, the proprietor's Capital account is the only one to close. It is closed in the same manner as the proprietor's Capital account in Double Entry, as explained on page 93. The profit is entered on the credit side, or the loss on the debit side, with red ink, the account ruled with single and double red lines, footed with black ink, and the "Present Capital" brought down in black ink on the credit side.

§ 247. Changing from Single to Double Entry. When it is desired to change the books from the Single Entry method to that of Double Entry, it is necessary to make a statement of the business, and close the ledger, as explained in §§ 245 and 246. A journal entry is made from this statement, debiting all accounts that show an asset, and crediting those showing liabilities, and the proprietor for the investment. This journal entry will balance, since the total liabilities, plus the present worth of the proprietor equals the assets. When the accounts

SINGLE ENTRY STATEMENT, DECEMBER 31, 19

ASSETS			
Cash	1099	60	
Merchandise in stock (Inventory)	2565	87	
Office Equipment (Inventory)	200		
Ledger Accounts:			
Notes Receivable	337	66	
C. G. McClure	350		
University School	101	50	
C. J. McDaniels	12	75	
R. R. Oglesby & Co.	87		
City Electric Co.	110	25	
Ormendorff Bros.	103		
Central Business College	30		
W. R. Austin	8		
Total Assets		5005	63
LIABILITIES			
Ledger Accounts:			
Notes Payable	1146	33	
Belknap Stationery Co.	95		
American Stationery Co.	276	59	
Johnston Bros.	13	75	
Yawman & Erbe Mfg. Co.	1252	38	
Standard Stationery Co.	58	80	
Chatfield & Woods	172	50	
Total Liabilities		3015	35
C. W. Ogden's Present Capital		1990	28
C. W. Ogden's Net Investment		1375	
C. W. Ogden's Net Profit		615	28

Illustration No. 106, Single Entry Statement.

are opened in the ledger, write the word "Inventory" in the explanation column of those accounts which were not kept in the Single Entry ledger. In this set these are Merchandise Inventory, Office Equipment, and Cash. After all the accounts are opened in the ledger, a Trial Balance is taken to prove that the books are in balance. See Illustration No. 107.

JANUARY 1, 19..

Cash	1099	60	
Merchandise Inventory	2565	87	
Office Equipment (Inventory)	200		
Notes Receivable	337	66	
C. G. McClure	350		
University School	101	50	
C. J. McDaniels	12	75	
R. R. Oglesby & Co.	87		
City Electric Co.	110	25	
Ormendorff Bros.	103		
Central Business College	30		
W. R. Austin	8		
Notes Payable		1146	33
Belknap Stationery Co.		95	
American Stationery Co.		276	59
Johnston Bros.		13	75
Yawman & Erbe Mfg. Co.		1252	38
Standard Stationery Co.		58	80
Chatfield & Woods		172	50
C. W. Ogden, Capital		1990	28
Assets and liabilities at the beginning of the business			

Illustration No. 107, Journal Entry to Change from Single Entry to Double Entry.

Appendix B

DIRECT METHOD OF CLOSING THE LEDGER

The Purpose of this Appendix is to explain the process of making the closing entries direct in the ledger as explained in § 60. The student should understand both methods so that he may apply either as directed.

§ 248. **Closing the Ledger**, as explained in § 53, is an accounting term applied to the process of transferring the net profit or net loss to the owner's Capital account at the close of a fiscal period. The process of making direct in the ledger the entries necessary to transfer the net profit or loss to the owner's Capital account is the same as with the journal entry method.

A comparison of Illustration No. 108 with the illustrations on pages 254 and 255 shows the use of the Statement of Profit and Loss as a guide in closing, and the method of making these entries. The complete accounts used in the illustrations are shown on pages 72 and 73 and are the same accounts as those used as a basis for discussing the closing by the journal entry method, pages 94-96. The ledger on pages 256 and 257 shows the accounts on pages 72 and 73 after the closing entries explained on pages 254 and 255 have been completed; these pages are the same as the accounts on pages 91-93, except that red ink is used in the closing entry in each account and the page of the ledger is shown in the folio column instead of the page in the journal.

When the direct method is used, it is customary to indicate the closing entries which require the transfer of the balance of one account to another, by the use of red ink; for this reason, the direct method of closing the ledger is sometimes referred to as the "red ink method". The date, page of the ledger to which the balance of the account is transferred, and the amount, are entered with red ink, but the same facts, when entered on the opposite side of the account to which they are transferred, are entered in black ink.

W. A. Gordon
Statement of Profit & Loss, October 31, 19

<i>Returns from Sales:</i>				
<i>Gross Sales</i>				<i>2364</i>
<i>Deduct Sales Returns</i>				<i>1535</i>
<i>Net returns from mdse. sold</i>				<i>234865</i>
<i>Cost of Sales:</i>				
<i>Mdse. Inventory 7/1 500.00</i>				
<i>Add Purchases</i>	<i>263510</i>	<i>313510</i>		
<i>Deduct Purchases Returns</i>	<i>2260</i>		<i>311250</i>	
<i>" Mdse. Inventory, 10/31</i>			<i>147715</i>	
<i>Net cost of mdse. sold</i>				<i>163535</i>
<i>Gross Profit on Sales</i>				<i>71330</i>
<i>Operating Cost:</i>				
<i>Expense</i>				<i>32740</i>
<i>Net Profit</i>				<i>38590</i>

Illustration No. 108, Statement of Profit and Loss.

The First Entry is that required to record the merchandise inventory at the close of the fiscal period. This entry is necessary because the cost of sales is ascertained on the Statement of Profit and Loss by subtracting the inventory at the close of the fiscal period from the net purchases. The Inventory account is debited because it is one of the assets; the Purchases account is credited for the inventory to indicate the subtraction.

The illustration at the right shows the Purchases account at the close of the fiscal period, and the Inventory and Purchases accounts as they appear after this entry has been made.

Purchases

Oct 31	3135 10	Oct 31	22 60
--------	---------	--------	-------

Inventory

Oct 31	1477 15
--------	---------

Purchases

Oct 31	3135 10	Oct 31	22 60
		31 Inventory	1477 15

The Second Entry is that required to transfer the balance of the Purchases account to the Sales account. This entry is necessary because the profit on sales is ascertained on the Statement of Profit and Loss by subtracting the cost of merchandise sold from the net sales. The Sales account is debited for the cost of sales to indicate the subtraction. Purchases is credited because this account shows the cost of sales. After this entry is made, the Purchases account will balance and be ruled, and the balance of the Sales account will show the net profit on sales as shown by the Statement of Profit and Loss.

Sales

Oct 31	1535	Oct 31	2364
--------	------	--------	------

Purchases

Oct 31	3135 10	Oct 31	22 60
		31 Inventory	1477 15

Sales

Oct 31	1535	Oct 31	2364
31 Cost of Sales	1635 35		

Purchases

Oct 31	3135 10	Oct 31	22 60
		31 Inventory	1477 15
	3135 10		3135 10

The illustration at the right shows the Sales and Purchases accounts before the second entry has been made, and the Sales and Purchases accounts after this entry has been made.

The Third Entry is that required to transfer the balance of the Sales account to the Profit and Loss account. This entry is necessary because it is customary to show in the ledger a summary of the facts shown by the Statement of Profit and Loss. The Sales account is debited because it shows the profit on sales; the Profit and Loss account is credited because this account is credited for all income. After this entry is made, the Sales account will balance and be ruled, and the Profit and Loss account will show the profit on sales.

Sales

Oct 31	1535	Oct 31	2364
31 Cost of Sales	1635 35		

Sales

Oct 31	1535	Oct 31	2364
31 Cost of Sales	1635 35		
31 Profit on Sales	2364 35		
	2364		2364

The illustration at the right shows the Sales account before the third entry has been made, and the Sales and Profit and Loss accounts after this entry has been made.

Profit and Loss

Oct 31	Profit on Sales	2364 35
--------	-----------------	---------

The Fourth Entry is that required to transfer the balance of the Expense account to the Profit and Loss account. This entry is necessary because the net profit is ascertained on the Statement of Profit and Loss by subtracting the expense from the profit on sales. The Profit and Loss account is debited to indicate the subtraction; the Expense account is credited because this account shows the expense for the period. After this entry is made, the Expense account will balance and be ruled and the balance of the Profit and Loss account will show the net profit.

The illustration at the right shows the Profit and Loss and the Expense accounts before the fourth entry has been made, and the Profit and Loss and the Expense accounts after this entry has been made.

Expense					
Oct. 31		328 50	Oct. 31		1 10
Profit and Loss					
			Oct. 31 Profit and Loss	4	713 30
Profit and Loss					
Oct. 31 Expense	4	327 40	Oct. 31 Profit and Loss	4	713 30
Expense					
Oct. 31		328 50	Oct. 31		1 10
		328 50	Oct. 31 Profit and Loss	5	327 40
					328 50

The Fifth Entry is that required to transfer the balance of the Profit and Loss account to the proprietor's Capital account. This entry is necessary because the purpose of closing the ledger is to transfer the net profit to the proprietor's account. The Profit and Loss account is debited because this account shows the net profit; the proprietor's Capital account is credited because this profit is equivalent to an additional investment. When this entry is made, the Profit and Loss account will balance and be ruled, and the proprietor's Capital account will show his present proprietorship as shown by the Balance Sheet.

The illustration at the right shows the Profit and Loss account and the account with W. A. Gordon, Capital, before the fifth entry has been made, and the Profit and Loss and W. A. Gordon Capital accounts after this entry has been made.

W. A. Gordon, Capital					
Oct. 31		200	Oct. 31		150 0
Profit and Loss					
Oct. 31 Expense	4	327 40	Oct. 31 Profit and Loss	4	713 30
Profit and Loss					
Oct. 31 Expense	4	327 40	Oct. 31 Profit and Loss	4	713 30
Oct. 31 W. A. Gordon Capital	5	713 30			713 30
W. A. Gordon, Capital					
Oct. 31		200	Oct. 31		150 0
			Oct. 31 Profit and Loss	5	328 50

Closing the Inventory Account

The inventory of merchandise at the close of the fiscal period may remain in the Purchases account throughout the next fiscal period, or it may be closed into the Purchases account at the beginning of the next period; the transfer of the inventory from the Inventory account to the Purchases account, whether made at the beginning or close of the fiscal period, should be through a general journal entry as illustrated on page 96.

Sales

19				19			
Sept.	19	\$1	910	Sept.	6	Cr	32
Oct.	6	C3	250		13	Cr	40
	24	\$1	375		20	Cr	65
	31	Cost of Sales	163535		27	Cr	4450
	31	Profit on Sales	272200		30	\$1	55261
				Oct	4	Cr	8765
					11	Cr	10980
					18	C4	12950
					27	C4	13645
					31	C4	8719
					31	\$1	107980
			2364				2364

Inventory

Oct.	31	Mdse. Inv. '31	147715
------	----	----------------	--------

Purchases

Sept.	1	Inventory	\$1	500	Sept	23	\$1	1260	
	30	1779.50	P1	129210	Oct.	20	\$1	1060	
Oct.	2	Freight and Drayage	C3	225		31	Inventory	4	147715
	31		\$1	134075			Cost of Sales		144135
				313510					313510

Expense

Sept.	4		C3	25	Oct.	21	Stamps	C4	50
	30	65.00	C3	140		27	"	\$1	60
Oct.	13		C3	1850			Profit and Loss	5	32740
	17		C5	5					
	31	327.40	C5	140					32850
				32850					

Illustration No. 109, Ledger Closed by Direct Method—Continued.

The Above Accounts Before They are Closed are shown on page 73. It is necessary to open the Inventory account in connection with the closing entries because it is an asset which is not recorded. The process of closing these accounts is analyzed and explained on pages 254 and 255.

W. A. Gordon, Capital

19					19				
Oct. 1		C3	200		Sept. 1		C2	1000	
	31	Present Capital	1685 90			1		81	500
			1885 90		Oct. 31	Profit & Loss	5	385 90	
								1885 90	
					Nov. 1	Present Capital	✓	1685 90	

Profit and Loss

19					19				
Oct. 31	Expense	4	327 40		Oct. 31	Profit on Sales	4	713 30	
	21	W. A. Gordon, Cap.	3	385 90					
			713 30					713 30	

Illustration No. 110, Ledger Closed by Direct Method—Concluded.

It is Customary to Balance the Capital Account after the ledger is closed and to carry the present capital down under date of the next business day. The illustration above shows the process of balancing W. A. Gordon's Capital account which appears at the bottom of page 72.

The Profit and Loss Account contains a summary of the cost and income as shown by the Statement of Profit and Loss. The account is opened at the close of the fiscal period in connection with the closing entries and closed when the profit is transferred to the Capital account, and remains closed throughout the period.

W. A. Gordon
Post-Closing Trial Balance, October 31, 19

1	Cash		291 61				
1-2	Accounts Receivable		883 51				
3	Accounts Payable					966 37	
3	W. A. Gordon, Capital					1685 90	
4	Inventory		1477 15				
			2652 27			2652 27	
			2652 27			2652 27	

Illustration No. 111, Post-closing Trial Balance, Model Set.

The Equality of Debits and Credits is maintained in recording the closing entries; hence the ledger should be in balance if these entries have been made correctly. The post-closing Trial Balance is taken to test the correctness of the closing entries. The Trial Balance in the illustration is taken from the ledger accounts on pages 70, 71, 91 and 256. The accounts receivable and accounts payable are grouped and entered in one amount because none of these accounts in the ledger are affected by the closing.

*

Appendix C

INCOME TAX RETURN

The Purpose of this Appendix is to explain briefly the income tax and to show the method of preparing the return for an individual and a partnership on the blanks provided by the Government. The student can see from the discussion and illustrations that when all the information needed is available, the preparation of the return is not a difficult problem.

§ 249. Income Tax. There are three methods of taxation: (a) a percentage of the value of property, (b) a fixed amount for privileges, and (c) a percentage of net income. Taxes collected on a property valuation basis are referred to as "property taxes"; taxes collected for privileges, as "license"; taxes collected on income, as "income tax". The property owner submits a schedule of his property as a basis for taxation; the one who wishes to secure a privilege pays for it in advance and receives a receipt authorizing him to exercise the privilege granted thereby—that is, he receives a license to perform certain business transactions; the one who receives an income submits a schedule of his gross income and the deductions therefrom, as a basis for taxation.

State, city and county governments usually levy taxes on property and privileges, though a few states have levied taxes on income. The United States Government levies taxes for privileges and on income; privileges are granted through the sale of stamps, and the taxes on income are collected yearly. The full amount of the tax levied on income may be paid at the time the income tax return is presented to the collector, or quarterly—one-fourth at the time the return is made and the balance in three equal installments.

The income tax return is prepared by the taxpayer on a blank provided by the Government, and within seventy-five days from the close of the period which it covers. The official form contains four pages, two for the information in regard to the tax and two pages of instructions. The taxpayer should retain a copy of the return; he removes the two pages of instructions from the blank before it is presented to the Collector of Internal Revenue.

The discussion of income tax here refers to that levied by the United States Government. The states which levy taxes on income usually accept the report made to the Federal Government as a basis for taxation. The process of levying a tax on income by foreign governments is along the same line as that used by the United States Government.

§ 250. Gross Income, as defined in Section 213 (a) of the 1921 Revenue Act, includes income derived from salaries, professional services, the operations of a business, or special transactions from which the taxpayer derives profit. The amount of all such items is to be included in the gross income for the taxable year as listed on the income tax return.

Income from the operations of a business, income received as salary for services rendered, income from the rent of real estate owned by the taxpayer, interest on bonds, and dividends on stock owned by the taxpayer are examples of items composing gross income.

§ 251. Exempt Income. The taxpayer is not required to pay tax on all income. Space will not permit a complete discussion of these exemptions here, but they are given in detail in Section 213 (b) of the 1921 Revenue Act, a complimentary copy of which will be provided any teacher of bookkeeping by the publishers of this text.

The proceeds of life insurance policies, the value of property acquired by gift, interest on the obligations of the United States (with certain exceptions), income from domestic building and loan associations (with certain exceptions), and the rental value of a dwelling house furnished a minister of the gospel are examples of exempt income.

§ 252. Deductions Allowed Individuals. Every individual taxpayer is allowed certain deductions from his gross income which are to be subtracted from the gross income to ascertain the net income on which he is to pay tax. These deductions are given in Section 214 of the 1921 Revenue Act. In addition to the deductions mentioned, each single person is allowed a personal exemption of \$1,000.00, and each head of the family or married person, an exemption of \$2,500.00. These exemptions are given in detail in Section 216 of the 1921 Revenue Act.

All the expenses necessary for the operation of a trade or business, including salaries, traveling expenses, rent, etc.; interest paid on borrowed capital; taxes paid to a city or state; losses sustained from failure to collect accounts receivable; losses sustained on account of the sale of property belonging to the taxpayer; a reasonable allowance for exhaustion, wear and tear of property used in the operations of the business of the taxpayer; and contributions to charity are examples of the deductions allowed.

§ 253. Deductions Not Allowed. The taxpayer cannot deduct all of his expenses from gross income in order to ascertain his net income. Items which are not deductible are given in Section 215 of the 1921 Revenue Act.

Personal, living and family expenses, amounts paid for new buildings, improvements or betterments, amounts expended in restoring property or in making good the exhaustion thereof, and amounts paid as premiums for life insurance are examples of deductions not allowed.

§ 254. Individual Income Tax Return. Every individual having a net income of \$1,000.00 or more, if single, or \$2,000.00 or more, if married, or a gross income of \$5,000.00 or more, must submit an income tax return showing the amount of his gross income and the deductions therefrom. The income of an individual may be derived from a salary, investment, or the profits resulting from the operations of a business, as explained in § 1. The return includes the income and deductions for one year, which may end December 31 or on any other date.

Illustrations Nos. 112 and 113 show the income tax return submitted by W. A. Gordon for the year ending August 31, 1922. This was prepared from the facts given in § 256. Illustrations Nos. 114 and 115 contain instructions for the information of the individual in preparing the income tax return.

§ 255. Partnership Income Tax Return. A partnership is required to submit an income tax return at the conclusion of each fiscal period of twelve months, but the tax is paid by the individual partners. The information for the income tax return is obtained from the Statement of Profit and Loss prepared from the accounts resulting from the performance of business transactions during the year. The partnership is allowed the same deductions as the individual, with the exception of contributions to charity.

Illustrations Nos. 116 and 117 show the front and back of the partnership income tax return prepared from the Statement of Profit and Loss (Illustration No. 93) for C. W. Keeland & Co., a partnership composed of C. W. Keeland and A. D. Munson. The distribution of the expenses as given in Illustration No. 93 is not the same as that given on the income tax return; but is explained in § 257. Illustrations Nos. 118 and 119 show the two pages of instructions which accompany each return blank; these instructions are for the information of the one who prepares the income tax return and are based on the law which requires the taxing of income.

§ 256. Explanation of Illustrations Nos. 112 and 113. W. A. Gordon operates a retail grocery business. His profits from the operations of this business are shown in the illustration on page 260. In addition to his income from the grocery business, Mr. Gordon has received \$300.00 salary from the Peoples' Insurance Company for services as a member of the board of directors, \$47.50 dividend on one share of stock in the Citizens Building and Loan Association, and \$25.50 interest on a Liberty Bond which he owns; his traveling expenses in connection with attending board meetings were \$30.00, the taxes on his home, \$35.50, and his contributions to charity, \$50.00. The dividend and income from interest on the Liberty Bonds are not shown in Illustration No. 113 because this income received by Mr. Gordon is exempt from taxation. The \$30.00 expenses in connection

with obtaining the salary of \$300.00 is deducted because \$270.00 is the net income received. The taxes paid by Mr. Gordon and contributions to charity are deducted from his net income because they are authorized deductions.

The illustration below shows the Statement of Profit and Loss prepared from the income and cost accounts in the ledger of W. A. Gordon at the close of business August 31, 1922. The transactions completed by W. A. Gordon during the first two months during which he operated his grocery business, are given in the Model Set, Chapter VI. A Statement of Profit and Loss prepared by his bookkeeper at the conclusion of the first two months is given in Illustration No. 42; the statement at the right is in the same form but the amounts are different because it shows the costs and income and the net profit for twelve months. All the information needed in connection with the preparation of the income tax return may be obtained from the Statement of Profit and Loss, but it is usually necessary to analyze some of the operating accounts in order to show certain facts in regard to the cost of operation. In Illustration No. 113 the expenses are distributed as rent, taxes, insurance, salaries, delivery cost, advertising, and miscellaneous; this distribution is obtained from an analysis of the Expense account.

<i>W. A. GORDON</i>			
<i>Statement of Profit and Loss, August 31, 1922</i>			
Returns from Sales:			
Gross Sales.....			15,275.80
Deduct Sales Returns.....			101.92
Net Sales.....			15,173.88
Cost of Mdse. Sold:			
Mdse. Inventory 9/1/21.....	500.00		
Add Purchases.....	11,026.85	11,526.85	
Less Purchases Returns.....		85.40	
Net Purchases Cost.....		11,441.45	
Less Mdse. Inventory 8/31/22.....		1,477.15	
Net Cost of Mdse. Sold.....			9,964.30
Gross Profit on Sales.....			5,209.58
Operating Cost:			
Expense.....			2,039.90
Net Profit.....			3,169.68

§ 257. Explanation of Illustrations Nos. 116 and 117. The business operated by C. W. Keeland & Co. is owned by C. W. Keeland and A. D. Munson. The results of operating the business during the year ending December 31, 1922 are shown by the Statement of Profit and Loss (Illustration No. 93). The facts shown on the income tax return are the same as those shown on the Statement of Profit and Loss except that some of the expenses are analyzed. The salary paid one partner (\$1,200.00) was debited to Selling Expense and the salary of the other partner (\$1,200.00) was debited to Administrative Expense, but salaries paid partners must be shown as a separate item on the return. Purchases discount is deducted from the net cost of goods purchased, and sales discount from the net sales, instead of being shown as non-operating income and cost. The adjustment on page 2 of the return is necessary because the partnership paid a fine of \$25.00 (which was debited to Selling Expense) for one of its drivers who exceeded the speed limit, but this cannot be deducted as an expense on the return because it is one of the costs which are not deductible. Each partner will be required to show his share of the net income on his individual income tax return, which will be prepared in the same form as that for W. A. Gordon, pages 261 and 262, except that the income received by each will be entered as Item 3 instead of Item 5.

The purpose of illustrating a partnership income tax return is to show the student that the information desired by the Government is obtained from the Statement of Profit and Loss and not to explain the technicalities of the income tax law. The student should compare the above information with Illustrations Nos. 116 and 117 and the instructions in Illustrations Nos. 118 and 119.

Form 1040A U. S. INTERNAL REVENUE		INDIVIDUAL INCOME TAX RETURN FOR NET INCOMES OF NOT MORE THAN \$5,000 For Calendar Year 1921 Or for period begun <u>Sept. 1, 1921</u> , and ended <u>Aug. 31, 1922</u>			Do not write in this space FIRST PAYMENT \$ _____ (Cashier's Stamp)																																																																																																																																																																																							
FILE RETURN WITH THE COLLECTOR OF INTERNAL REVENUE FOR YOUR DISTRICT ON OR BEFORE MARCH 15, 1922		PRINT NAME AND ADDRESS PLAINLY BELOW <u>W. A. Gordon,</u> (Name.) <u>605 Main Street,</u> (Street and number or rural route.) <u>Cincinnati, Hamilton, Ohio.</u> (Post office.) (County.) (State.)			CASH CHECK M.O. Examined by _____																																																																																																																																																																																							
OCCUPATION, PROFESSION, OR KIND OF BUSINESS <u>Retail Grocery</u>																																																																																																																																																																																												
See In- struction Number 13	Explain in Schedule (page 2) F	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="2" style="text-align: center;">INCOME.</th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> </tr> <tr> <th style="width: 50%;"></th> <th style="width: 10%; text-align: center;">Amount received.</th> <th style="width: 10%; text-align: center;">Expenses paid.</th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> <th style="width: 10%;"></th> </tr> </thead> <tbody> <tr> <td>1. Salaries, Wages, Commissions, etc. (State name and address of person from whom received.) <u>Peoples Insurance Company</u> <u>Hamilton, Ohio.</u></td> <td style="text-align: right;">\$ 300.00</td> <td style="text-align: right;">\$ 30.00</td> <td style="text-align: right;">\$ 270</td> <td style="text-align: right;">00</td> <td></td> <td></td> </tr> <tr> <td>2. Interest on Bank Deposits, Notes, Mortgages, and Corporation Bonds</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>3. Income from Partnerships, Fiduciaries, etc. (State name and address of partnerships, etc.)</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>4. Rents and Royalties</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>5. Profit (or loss) from Business or Profession (not including income from partnerships)</td> <td></td> <td></td> <td style="text-align: right;">3169</td> <td style="text-align: right;">68</td> <td></td> <td></td> </tr> <tr> <td>6. Profit (or loss) from Sale of Real Estate</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>7. Profit (or loss) from Sale of Stocks, Bonds, etc.</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>8. Other Income (except dividends from domestic corporations and interest on obligations of the U. S.) (State nature of income) (a) _____ (b) _____</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>9. TOTAL INCOME IN ITEMS 1 TO 8 (less losses shown above, if any)</td> <td></td> <td></td> <td style="text-align: right;">\$ 3439</td> <td style="text-align: right;">68</td> <td></td> <td></td> </tr> <tr> <td colspan="7" style="text-align: center;">DEDUCTIONS.</td> </tr> <tr> <td>10. Interest Paid (not including interest deducted above)</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>11. Taxes Paid (not including taxes deducted above)</td> <td></td> <td></td> <td style="text-align: right;">35</td> <td style="text-align: right;">50</td> <td></td> <td></td> </tr> <tr> <td>12. Losses by Fire, Storm, etc.</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>13. Contributions</td> <td></td> <td></td> <td style="text-align: right;">50</td> <td style="text-align: right;">00</td> <td></td> <td></td> </tr> <tr> <td>14. Bad Debts (not including bad debts deducted above)</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>15. Other Deductions Authorized by Law</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>16. TOTAL OF ITEMS 10 TO 15</td> <td></td> <td></td> <td style="text-align: right;">\$ 85</td> <td style="text-align: right;">50</td> <td></td> <td></td> </tr> <tr> <td>17. TAXABLE NET INCOME (Item 9 minus Item 16)</td> <td></td> <td></td> <td style="text-align: right;">\$ 3354</td> <td style="text-align: right;">18</td> <td></td> <td></td> </tr> <tr> <td colspan="7" style="text-align: center;">COMPUTATION OF TAX.</td> </tr> <tr> <td>18. Net Income (Item 17 above)</td> <td style="text-align: right;">\$ 3354</td> <td style="text-align: right;">18</td> <td>21. Tax Due (4% of Item 20)</td> <td style="text-align: right;">\$ 18</td> <td style="text-align: right;">17</td> <td></td> </tr> <tr> <td>19. Less Personal Exemption and Credit for Dependents</td> <td style="text-align: right;">2900</td> <td style="text-align: right;">00</td> <td>22. Less: Tax Paid at Source</td> <td style="text-align: right;">\$</td> <td></td> <td></td> </tr> <tr> <td>20. Balance (Item 18 minus Item 19)</td> <td style="text-align: right;">\$ 454</td> <td style="text-align: right;">18</td> <td>23. Income and profit taxes paid to a foreign country or possession of the United States (attach Form 1110)</td> <td></td> <td></td> <td></td> </tr> <tr> <td>24. Balance Due (Item 21 minus 22 and 23)</td> <td></td> <td></td> <td style="text-align: right;">\$ 18</td> <td style="text-align: right;">17</td> <td></td> <td></td> </tr> <tr> <td>25. Tax Paid when Filing Return</td> <td></td> <td></td> <td style="text-align: right;">\$ 18</td> <td style="text-align: right;">17</td> <td></td> <td></td> </tr> </tbody> </table>					INCOME.								Amount received.	Expenses paid.					1. Salaries, Wages, Commissions, etc. (State name and address of person from whom received.) <u>Peoples Insurance Company</u> <u>Hamilton, Ohio.</u>	\$ 300.00	\$ 30.00	\$ 270	00			2. Interest on Bank Deposits, Notes, Mortgages, and Corporation Bonds							3. Income from Partnerships, Fiduciaries, etc. (State name and address of partnerships, etc.)							4. Rents and Royalties							5. Profit (or loss) from Business or Profession (not including income from partnerships)			3169	68			6. Profit (or loss) from Sale of Real Estate							7. Profit (or loss) from Sale of Stocks, Bonds, etc.							8. Other Income (except dividends from domestic corporations and interest on obligations of the U. S.) (State nature of income) (a) _____ (b) _____							9. TOTAL INCOME IN ITEMS 1 TO 8 (less losses shown above, if any)			\$ 3439	68			DEDUCTIONS.							10. Interest Paid (not including interest deducted above)							11. Taxes Paid (not including taxes deducted above)			35	50			12. Losses by Fire, Storm, etc.							13. Contributions			50	00			14. Bad Debts (not including bad debts deducted above)							15. Other Deductions Authorized by Law							16. TOTAL OF ITEMS 10 TO 15			\$ 85	50			17. 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SCHEDULE A.—EXPLANATION OF ITEM 4. (Rents and Royalties.)

1. Kind of property.	2. Cost, or March 1, 1913, value.	3. Amount received.	4. Repairs.	5. Depreciation and depletion.	6. Other expenses.	7. Net profit (or loss).

State estimated life of property and how you figured depreciation _____

SCHEDULE B.—EXPLANATION OF ITEM 5. (Business or Profession.)

Total Income from Business or Profession	Gross Sales \$15,275.80—Returns \$101.92	15173.88
Total Business Expenses (state specifically, see Instruction 10)	Mdse. \$9,964.30, Expense \$2,039.90	12004.20
		3169.68

Net Profit (or Loss) (If profit is less than usual, explain) _____

Explanation of business expenses Net purchases \$11,441.45—inventory 8/31/22 \$1,477.15.
 Rent \$780.00, taxes \$75.50, insurance \$50.00, salaries \$900.00, delivery cost \$100.00, advertising \$50.00, miscellaneous \$84.40.

SCHEDULE C.—EXPLANATION OF ITEM 6. (Sale of Real Estate.)

1. Kind of property.	2. Date acquired.	3. Amount received.	4. Cost.	5. March 1, 1913, value.	6. Subsequent improvements.	7. Depreciation.	8. Net profit (or loss).

If not acquired by purchase, state how acquired _____

SCHEDULE D.—EXPLANATION OF ITEM 7. (Sale of Stocks, Bonds, etc.)

1. Kind of property.	2. Date acquired.	3. Cost.	4. March 1, 1913, value.	5. Amount received.	6. Net profit (or loss).

If not acquired by purchase, state how acquired _____

SCHEDULE E.—EXPLANATION OF ITEM 12. (Losses by Fire, Storm, etc.)

1. Kind of property.	2. Cost, or March 1, 1913, value.	3. Depreciation previously taken.	4. Salvage value.	5. Insurance.	6. Net loss.

SCHEDULE F.—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 1, 13, 14, and 15.)

Item 1: traveling expenses incidental to attending Board meetings.
 Item 13: contributions to Community Chest.

1. Are you a citizen or resident of the United States? Yes	2. If you filed a return for 1920, to what Collector's office was it sent? Cincinnati, Ohio	3. Is this a joint return of husband and wife? No
4. Was a separate return filed by your husband or wife? No	If so, state: (a) Exemption claimed, \$ _____ (b) Name and address entered at head of that return _____	
5. Were you married and living with husband or wife on the last day of your taxable period? Yes	6. If not, were you on the last day of your taxable period supporting one or more persons living in your household who are closely related to you by blood, marriage, or adoption? _____	
7. How many dependent persons (other than husband or wife) under 18 years of age or incapable of self-support because mentally or physically defective were receiving their chief support from you on the last day of your taxable period? One child		
8. State amount of dividends received from domestic corporations (including dividends received through partnerships, fiduciaries, etc.) 100.00	9. State amount of interest received on Victory Liberty Loan 4½ Notes 47.50	10. State amount of interest received on other obligations of the United States (except Liberty Bonds) on a principal in excess of \$5,000 25.50

I SWEAR (or affirm) that this return, including the accompanying schedules and statements (if any), has been examined by me, and, to the best of my knowledge and belief, is a true and complete return, made in good faith, for the taxable period as stated, pursuant to the Revenue Act of 1921 and the Regulations issued under authority thereof.

(If return is made by agent, the reason therefor must be stated on this line.)

Sworn to and subscribed before me this _____ day of _____

(Signature of individual or agent)

(Signature of officer administering oath.)

(Title.)

(Address of individual or agent.)

(An amended return must be plainly marked "Amended" across the face of the return.)

2-11632

INSTRUCTIONS FOR INDIVIDUAL RETURN

1. PERSONS REQUIRED TO MAKE A RETURN OF INCOME.

An income tax return must be filed by every citizen of the United States whether residing at home or abroad, and every person residing in the United States, though not a citizen thereof, whose gross income for the taxable period 1921 amounted to \$5,000, or whose net income amounted to—

- (1) \$1,000 if single or if married and not living with husband or wife.
 - (2) \$2,000 if married and living with husband or wife.
- If the combined net income of husband, wife, and dependent minor children equalled or exceeded \$2,000, or if the combined gross income of husband, wife, and dependent minor children equalled or exceeded \$5,000 all such income must be reported on a joint return, or on separate returns of husband and wife. If a single person, including that of dependent minors, if any, equalled or exceeded \$1,000, or if the gross income equalled or exceeded \$5,000, a return must be filed. A minor, however, having a net income of \$1,000 or \$2,000, according to the marital status, or a gross income of \$5,000, must file a return.

Under each of the above conditions, a return must be filed even though no tax is due. Note especially Instruction 6, "Credits for Personal Exemption and Dependents."

The income of a minor or incompetent, if derived from a separate estate under control of a guardian, trustee, or other fiduciary, must be reported by his guardian or other legal representative.

Income of (a) estates of decedents before final settlement; (b) trusts, whether created by will or deed, for unascertained persons or persons with contingent interests; or income held, or which under the terms of the will or trust may be held, for future distribution, is taxed to the fiduciary as a single person, except that from the income of an estate there may first be deducted any amount properly paid or credited to beneficiaries.

If the net income of a decedent from the beginning of the taxable period to the date of his death was \$1,000, if unmarried, or \$2,000, if married and living with wife or husband, or if the gross income was \$5,000 or over, the executor or administrator shall file a return on Form 1040 or 1040A for such decedent.

2. WHEN TO USE FORM 1040 INSTEAD OF THIS FORM.

You must file your return on Form 1040—

- (a) If the combined net income of husband and wife exceeds \$5,000.
- (b) If your net income exceeds \$5,000.
- (c) If the net income reported in this return exceeds \$4,000 and the entire family exemption has been claimed in a separate return filed by husband or wife.
- (d) If the return is filed for a period of less than one year and the net income when placed on an annual basis exceeds \$5,000. (See Instruction 3 below.)

3. PERIOD TO BE COVERED BY RETURN.

Your return must be filed for the calendar year ending December 31, 1921, or for the fiscal year ending on the last day of any month other than December. The dates on which the period covered by the return begins and ends, if other than a calendar year, must be plainly stated at the head of the return.

You are required to file your return for 1918 on the basis of your annual accounting period. Having established an accounting period for 1918 this period must be adhered to for subsequent years, unless permission was received from the Commissioner to make a change. In the case of a return for a period of less than one year, the net income shall be placed on an annual basis by multiplying the amount thereof by twelve and dividing by the number of months included in such period; and the tax shall be such part of a tax computed on such annual basis as the number of months in such period is of twelve months.

4. ACCRUED OR RECEIVED INCOME.

If your books of account are kept on an accrual basis, report all income accrued, even though it has not been actually received or entered on the books, and expenses incurred instead of expenses paid.

If your books do not show income accrued and expenses incurred, report all income received or constructively received, such as bank interest credited to your account, and expenses paid.

5. INSTALLMENT SALES.

If you have used the installment method in computing income from installment sales you must attach to your return a schedule showing separately for the years 1918, 1919, 1920, and 1921 the following information: (a) Gross sales; (b) cost of goods sold; (c) gross profits; (d) percentage of profits to gross sales; (e) amount collected; (f) gross profit on amount collected.

6. ITEMS EXEMPT FROM TAX.

The following items are exempt from Federal income tax and should not be reported, unless it is desired to establish a net loss, in which case see Section 204 of the Revenue Act of 1921:

- (1) The proceeds of life insurance policies paid upon the death of the insured;
- (2) The amount received by the insured as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract or upon surrender of the contract;
- (3) Gifts (not made as a consideration for service rendered), and money and property acquired under a will or by inheritance (but the income derived from money or property received by gift, will, or inheritance is taxable and must be reported);
- (4) Interest upon (1) the obligations of a State, Territory, or any political subdivision thereof, or the District of Columbia; or (2) securities issued under the provisions of the Federal Farm Loan Act of July 17, 1916; or (3) the obligations of the United States or its possessions; or (4) bonds issued by the War Finance Corporation. In the case of obligations of the United States issued after September 1, 1917 (other than postal savings certificates of deposit), and in the case of bonds issued by the War Finance Corporation, the interest is exempt only if and to the extent provided in the respective acts authorizing the issue thereof as amended and supplemented by Section 1226 of the Revenue Act of 1921, and should be excluded from gross income only if and to the extent it is wholly exempt to the taxpayer from income, war profits, and excess profits taxes;
- (5) Amounts received through accident or health insurance or under workmen's compensation acts, as compensation for personal injuries or sickness, plus the amount of any damages received, whether by suit or agreement, on account of such injuries or sickness;

- (6) Amounts received as compensation, family allotments and allowances under the provisions of the War Risk Insurance and the Vocational Rehabilitation Acts, or as pensions from the United States for service of the beneficiary or another in the military or naval forces of the United States in time of war; (7) The rental value of a dwelling house and appurtenances thereof furnished to a minister of the gospel as part of his compensation;
- (8) Compensation paid by a State or political subdivision thereof to its officers or employees.

7. FARMER'S INCOME SCHEDULE.

If you are a farmer or a farm owner renting your farm out on shares and keep no books of account, or keep books on a cash basis, obtain from the Collector, and attach to this return, Form 1040 F, Schedule of Farm Income and Expenses. Enter the net farm income as item 5, page 1 of the return. If your farm books of account are kept on an accrual basis, the filing of Form 1040 F is optional. Report income from salaries, interest, rents, sales of property, etc., in Items 1 to 7 of the return.

8. CREDITS FOR PERSONAL EXEMPTION AND DEPENDENTS.

If you were married and living with your husband or wife or were head of a family on the last day of your taxable period, you may subtract from your net income on Form 1040A, before calculating your normal tax, an exemption of \$2,500, plus \$400 for each person (other than husband or wife) under 18 years of age or incapable of self-support because mentally or physically defective, who was receiving his chief support from you on that date. If husband and wife make separate returns, the exemption of \$2,500 may be claimed by either (but not by both) or may be divided between them, but the exemption of \$400 for each dependent may be claimed only by the person furnishing the chief support.

If you were not married or did not live with husband or wife and were not head of a family on the last day of your taxable period, you are entitled to a personal exemption of \$1,000 plus \$400 for each dependent person under 18 years of age or incapable of self-support because mentally or physically defective, who was receiving his chief support from you on that date.

An exemption of \$1,000 may be claimed in cases where Form 1040A is filed for estates in process of administration, or with respect to income held for future distribution.

If by reason of a change in your accounting period a return is filed for part of a year, the personal exemption and credit for dependents may be claimed in accordance with your status on the last day of such taxable period. (See also Instruction 3 on this page.)

A "head of family" is a person who actually supports one or more persons living in his (or her) household, who are closely related to him (or her) by blood, marriage, or adoption.

9. AFFIDAVIT.

The affidavit must be executed by the person whose income is reported unless he is a minor or incompetent, or unless he is ill, absent from the country, or otherwise incapacitated, in which case the legal representative or agent may execute the affidavit. A minor, however, making his own return, must execute the affidavit.

The oath will be administered without charge by any collector, deputy collector, or internal revenue agent, or (if you are in the military or naval service of the United States) by any military or naval officer who is authorized to administer oaths for purposes of military or naval justice and administration. If an internal revenue officer is not available, the return should be sworn to before a notary public, justice of the peace, or other person authorized to administer oaths.

10. WHEN AND WHERE THE RETURN MUST BE FILED.

If the return is for the calendar year 1921, file it with the Collector of Internal Revenue for the district in which you live or have your principal place of business on or before March 15, 1922. If for a period other than the calendar year, the return should be filed on or before the 15th day of the third month following the close of such period.

In case the taxpayer has no legal residence or place of business in the United States, the return should be forwarded to the Collector of Internal Revenue, Baltimore, Md.

If the address of the collector is not printed on the return and you do not know it, ask at the post office or bank.

11. WHEN AND TO WHOM THE TAX MUST BE PAID.

The tax should be paid, if possible, by sending or bringing with the return a check or money order drawn to the order of "Collector of Internal Revenue at (insert name of city and State)."

Do not send cash through the mail, or pay it in person, except at the office of the collector.

The tax may be paid in four equal installments as follows: The first installment shall be paid at the time fixed by law for filing the return, the second installment shall be paid on the 15th day of the third month, the third installment on the 15th day of the sixth month, and the fourth installment on the 15th day of the ninth month after the time fixed by law for filing the return.

The total tax may be paid at the time of filing the return, or if not so paid, one installment must be paid and the balance may be paid in installments, or in full, on or prior to any subsequent installment date referred to above. Failure to pay any installment on the date fixed by law makes the taxpayer liable for the payment of the balance of tax due upon notice and demand by the collector.

12. PENALTIES.

For Making False or Fraudulent Returns.

Not exceeding \$10,000 or not exceeding one year's imprisonment, or both, in the discretion of the court, and, in addition, 50 per centum of the tax evaded.

For Failing to Make Return on Time.

Not more than \$1,000, and, in addition, 25 per centum of the total tax.

For Failing to Pay Tax When Due, or Understatement of Tax Through Negligence, etc.

Five per cent of the tax due but unpaid, plus interest at the rate of 1 per centum per month during the period in which it remains unpaid.

3-11822

13. INCOME FROM SALARIES, WAGES, COMMISSIONS, ETC.

Report all salaries or other compensation credited by or received from outside sources, and any salaries included as a deduction in Item 5 for (a) yourself, (b) your wife (or husband), if a joint return is filed, and (c) each dependent minor child having a net income of less than \$1,000 per annum. Use a separate line for each entry, giving the information requested. Any amount claimed as a deduction for necessary expenses against salaries, etc., should be fully explained in Schedule F, page 2 of the return, or in an attached statement.

Traveling expenses (including the entire amount expended for meals and lodging while away from home in the pursuit of a trade or business are deductible.

14. INCOME FROM PARTNERSHIPS, FIDUCIARIES, ETC.

Report your share (whether received or not) in the profits of a partnership or personal service corporation, or in the income of an estate or trust, except the part of such share that consisted of dividends on stock of domestic corporations, and taxable interest on obligations of the United States, which should be included in Items 8, 9, and 10, at foot of page 2 of the return.

Report in Item 1, salary received from a partnership or personal service corporation.

If the taxable period on the basis of which you file your return fails to coincide with the annual accounting period of the partnership, personal service corporation, or fiduciary, then you should include in your return your distributive share of the total net income for such accounting period, ending within your taxable period.

15. INCOME FROM RENTS AND ROYALTIES.

If you received property or crops in lieu of cash rent, report the income as though the rent had been received in cash. Crops received as rent on a crop-share basis should be reported as income for the year in which disposed of (unless your return shows income accrued).

Explain in Schedule A, repairs, depreciation, depletion, and other expenses. Other expenses include interest, taxes, fire insurance, fuel, light, labor, and other necessary expenses of this character.

16. INCOME FROM BUSINESS OR PROFESSION.

Report in Item 5 income from—

(a) Sale of merchandise, or of products of manufacturing, construction, mining, and agriculture.

(b) Business service, such as transportation, storage, laundering, hotel and restaurant service, livery and garage service, etc., if you owned the business. If you are only an employee of a business, report your salary or wages in Item 1.

(c) A profession, such as medicine, law, or dentistry, if you practiced it on your own account. If you were employed on a salary, report your salary in Item 1.

In general, report in Item 5, any income in the earning of which you incurred expenses for labor, rent, etc.

If you are a farmer (or a farm owner renting your farm to another person on shares), see Instruction 7.

Describe the business or profession, as "grocery," "retail clothing," "drug store," "laundry," "doctor," "lawyer," "farmer," etc.

Report the total income derived from sales or from services, less any discounts or allowances from the sale price or service charge. (For installment sales see Instruction 5.)

"Total Business Expenses" include: (1) cost of goods sold, which is usually obtained by adding to the inventory at the beginning of the year the merchandise and supplies purchased during the year, and deducting from this sum the inventory at the end of the year; (2) business expenses, which include all ordinary and necessary business expenses not classified above, such as office wages, rent, heat, light, and traveling expenses (see Instruction 13); (3) repairs, wear and tear, obsolescence, depletion, and property losses (other than merchandise), such as (a) ordinary repairs required to keep property in usable condition, (b) reasonable allowance for exhaustion, wear and tear of property used in the trade or business, including a reasonable allowance for obsolescence, and (c) losses of business property by fire, storm, or other casualty, or theft, not compensated for by insurance or otherwise and not made good by repairs claimed as deductions; and (4) bad debts, or portions thereof, arising from sales or professional services that have been reported as income, which have been definitely ascertained to be worthless and charged off within the year, or such reasonable amount as has been added to a reserve for bad debts within the year. A debt previously charged off as bad, if subsequently collected, must be returned as income for the year in which collected. Explain these deductions under Schedule B, page 2 of the return.

Do not include cost of business equipment or furniture, expenditures for replacements or for permanent improvements to property, or personal living or family expenses, nor any deduction for depreciation in the value of a building occupied by you as a dwelling, or of other property held for personal use.

If Item 5 shows a deficit, indicate by using red ink or a minus sign.

17. PROFIT FROM SALE OF REAL ESTATE.

Describe the property briefly, as "farm," "house," "lot."

State the actual consideration or price received, or, in case of an exchange, the fair market value of the property received.

Enter the original cost of the property, and if it was acquired prior to March 1, 1913, the fair market value on that date. Attach statement explaining how value at March 1, 1913, was determined. Expenses incidental to the purchase may be included in the cost if never claimed in income tax returns as deductions from income.

Enter as depreciation the amount of wear and tear and obsolescence, or depletion, sustained since March 1, 1913 (or since date of acquisition, if subsequent to March 1, 1913).

In case the property was acquired by gift, bequest, devise, or inheritance after March 1, 1913, or in any manner prior to that date, see Section 202 of the Revenue Act of 1921.

If the net result to be entered in Item 6 is a deductible loss, indicate the deficit by using red ink or a minus sign.

18. PROFIT FROM SALE OF STOCKS, BONDS, ETC.

The method of computation and the information to be submitted in the case of sales of stocks, bonds, etc., is similar to that required for Item 6, except that subsequent improvements and depreciation are not involved. The profit (or loss) should be computed in accordance with Instruction 17 above.

19. OTHER INCOME.

Report all other taxable income for which no place is provided elsewhere on page 1 of the return, including dividends received on stock of foreign corporations. Dividends received on stock of domestic corporations and taxable interest on obligations of the United States should be reported in Items 8, 9, and 10 at the foot of page 2 of the return.

20. INTEREST PAID.

Enter as Item 10 interest paid on personal indebtedness as distinguished from business indebtedness (which should be deducted under Schedules A, B, C, or D). Do not include interest on indebtedness incurred for the purchase of bonds and other obligations, the interest on which is exempt from tax, except interest on indebtedness incurred to purchase or carry obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer.

21. TAXES PAID.

Enter as Item 11 personal taxes paid and all taxes on property not used in business or profession, not including those assessed against local benefits of a kind tending to increase the value of the property. Do not include Federal income taxes, taxes imposed upon the taxpayer upon his interest as shareholder or member of a corporation, which are paid by the corporation without reimbursement from the taxpayer, nor income and profits taxes claimed as a credit in Item 23, page 1 of the return.

22. LOSSES BY FIRE, STORM, ETC.

Enter as Item 12 losses of property not connected with your trade, business, or profession, sustained during the year from fire, storm, shipwreck, or other casualty, or from theft, which were not compensated for by insurance or otherwise. (Losses claimed should be explained in Schedule E, on page 2 of the return.)

Do not deduct losses incurred in transactions which were neither connected with your trade or business, nor entered into for profit.

23. CONTRIBUTIONS.

Enter as Item 13 contributions or gifts made within the taxable period to or for the use of: (a) the United States, any State, Territory, or any political subdivision thereof, or the District of Columbia, for exclusively public purposes; (b) any corporation, or community chest, fund, or foundation, organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, including posts of the American Legion or the Women's Auxiliary units thereof, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual; or (c) the special fund for vocational rehabilitation authorized by section 7 of the Vocational Rehabilitation Act; to an amount which in all the above cases combined does not exceed 15 per centum of the taxpayer's net income as computed without the benefit of this paragraph.

Fiduciaries filing this return for estates in the process of administration are allowed, in lieu of this deduction, that provided in Section 219 (b) of the Revenue Act of 1921. List names of organizations and amounts contributed to such in Schedule F.

24. BAD DEBTS.

Enter as Item 14 all bad debts other than those claimed as a deduction in Items above. State in Schedule F (a) of what the debts consisted, (b) when they were created, (c) when they became due, and (d) how they were actually determined to be worthless.

25. OTHER AUTHORIZED DEDUCTIONS.

If this return is filed for an estate in the process of administration, there may be deducted the amount of any income properly paid or credited to beneficiaries. Any deduction claimed in Item 15 should be explained in Schedule F.

Form 1065 U. S. INTERNAL REVENUE	PARTNERSHIP AND PERSONAL SERVICE CORPORATION RETURN OF INCOME FOR CALENDAR YEAR 1922	Do not write in this space Examined by _____ Date received _____
THIS RETURN SHOULD BE FILED NOT LATER THAN THE 15TH DAY OF THE THIRD MONTH FOLLOWING THE CLOSE OF THE ACCOUNTING PERIOD	Or for period begun _____, 1921, and ended _____, 1922 PRINT NAME AND ADDRESS PLAINLY BELOW C. W. Keeland & Co., (Name) 209 Commerce Street, (Street and number) Cincinnati, Ohio. (Post office and State)	
KIND OF BUSINESS Retail Feed and Coal STATE WHETHER PARTNERSHIP OR CORPORATION Partnership		
SCHEDULE A—INCOME TO BE ACCOUNTED FOR BY MEMBERS.		
GROSS INCOME		
1. Gross sales, less returns and allowances	26 474 75	
2. Less cost of goods sold, exclusive of items called for separately below (attach Schedule A2)	18 328 82	8 145 93
3. Gross income from services or operations other than trading or manufacturing, less allowances (attach Schedule A3)		
4. Taxable interest from all other sources (not including interest referred to under Items 2 and 3, Schedule C)		163 48
5. Rents		
6. Royalties		
7. Share of net income earned by a partnership or personal service corporation (whether received or not)		
8. Dividends subject to surtax only (attach Schedule A8)		
9. Dividends subject to both normal and surtax (attach Schedule A9)		
10. Other income (not including any amount reported in Item 23 below nor interest on Liberty Bonds) (attach Schedule A10)		
11. TOTAL OF ITEMS 1 TO 10		8 309 41
DEDUCTIONS		
12. Expenses (except amounts reported in Item 2 above, or called for separately below) (attach Schedule A12)	861 80	
13. Compensation of partners or stockholders in whatever form paid (attach Schedule A13)	8 400 00	
14. Repairs (including labor, supplies, etc.) (attach Schedule A14)	63 19	
15. Interest (attach Schedule A15)	103 05	
16. Taxes (attach Schedule A16)	59 00	
17. Bad debts (attach Schedule A17)	23 53	
18. Exhaustion, wear and tear (including obsolescence) (attach Schedule A18)	379 20	
19. Depletion (attach Schedule A19)		
20. Amortization of War facilities (attach Schedule A20)		
21. TOTAL OF ITEMS 12 TO 20		3 899 77
22. ITEM 11 MINUS ITEM 21		
23. Profit or loss on sales of capital assets and miscellaneous investments (attach Schedule A23)		
24. Losses sustained by fire, storm, etc. (attach Schedule A24). Extend difference between or sum of Items 23 and 24		
25. NET INCOME TO BE ACCOUNTED FOR BY MEMBERS (ITEM 22 MINUS ITEM 24 EXTENDED)		4 419 64
SCHEDULE B—PARTNERS' OR STOCKHOLDERS' SHARES OF INCOME AND CREDITS.		
Enter below the share of net income (whether distributed or not) of each member of the partnership or stockholder of the personal service corporation (except interest on obligations of the United States), each partner's or stockholder's share of any income tax paid at source on tax-free covenant bonds, and any income and profits taxes paid by the partnership or corporation to a foreign country or to a possession of the United States. (See page 1 of Instructions, paragraphs 8 to 14, inclusive.) If the distributable interests in the net income are determined on a basis other than a percentage basis, attach an explanatory statement.		
MEMBERS OF PARTNERSHIP OR STOCKHOLDERS OF PERSONAL SERVICE CORPORATION.		
1. Name and address of each, as shown on individual tax returns.	2. Interest in partnership or number of shares held in corporation.	3. Dividends subject to surtax only (ITEM 8 ABOVE)
(a) C. W. Keeland, 952 Park Ave., Cincinnati	One-half	2209 82
(b) A. D. Munson, 814 Walnut St., Cincinnati	One-half	2209 82
(c)		
(d)		
(e)		
(f)		
(g)		
(h)		
(i)		
(j)		
TOTALS		4419 64
The undersigned, being severally duly sworn, each for himself deposes and says that this return, including the accompanying schedules and statements, has been examined by him and is to the best of his knowledge and belief a true and complete return, made in good faith, for the accounting period as stated, pursuant to the Revenue Act of 1921 and the Regulations issued under the authority thereof. Sworn to and subscribed before me this _____ day of _____, 1923.		
Seal of officer making affidavit.	(Signature of officer administering oath.) (Official capacity.)	President of corporation. Member of partnership. Treasurer of corporation. 2-11743
(An amended return must be plainly marked "Amended" across the face of the return)		

SCHEDULE C—RECONCILIATION OF NET INCOME AND ANALYSIS OF CHANGES IN SURPLUS.

1. Net income from Schedule A, Item 25, 1921	4 419 64	14. Unallowable deductions:	
(a) Interest on obligations of the U. S. issued since September 1, 1917 (except Victory Liberty Loan 1918)		(1) Donations, grants, and contributions	
2. Income not to be accounted for by members:		(2) Income and profits taxes paid to the United States, its possessions or a foreign country	
(a) Interest on obligations of the United States (except before September 1, 1917, Victory Liberty Loan 1918, Notes, and obligations of United States possessions)		(3) Special improvement (taxes tending to increase the value of the property improved)	
(b) Interest on obligations of States, Territories, and political subdivisions thereof		(4) Furniture and fixtures, additions, and betterments treated as expenses on the books	
(c) Interest on Farm Loan Bonds issued under Federal Farm Loan Act		(5) Replacements and renewals	
(d) Dividends on stock of personal service corporations from net income earned during the period between January 1, 1918, and the beginning of present accounting period		(6) Insurance premiums paid on the life of any officer or employee for the benefit of the corporation or business	
(e) Other items (to be detailed)		(7) Interest on indebtedness incurred for the purchase of property and other obligations, the interest on which is wholly exempt from tax, except interest on indebtedness incurred to purchase or to carry Victory Liberty Loan 1918 Notes, originally subscribed for by the taxpayer	
(f) _____		(8) Additions to reserve for bad debts which are not included in item (1)	
(g) _____		(9) Additions to sinking fund reserve, and other contingencies (to be detailed)	
3. Charge against reserves for bad debts (if item 17, Schedule A, is not an addendum to reserve)		(10) _____	
4. Charge against reserves for contingencies, etc. (to be detailed)		(11) _____	
(a) _____		(12) Other allowable deductions (to be detailed):	
(b) _____		(1) _____	25 00
(c) _____		(2) _____	
5. Total of items 1 to 4, inclusive	4 419 64	(3) _____	
6. Total from item 15	25 00	(4) _____	
7. Net profit for period as shown by books, before any adjustments are made therein (item 5 must be item 7)	4 394 64	(5) _____	
8. Surplus and undivided profits as shown by balance sheet at close of preceding accounting period		(6) _____	
(a) _____		(7) _____	
(b) _____		(8) _____	
9. Other credits to surplus (to be detailed)		(9) _____	
10. Total of items 7 to 9, inclusive		(10) _____	
11. Total from item 10		(11) _____	
12. Surplus and undivided profits as shown by balance sheet at close of accounting period (item 11 must be item 12)		(12) _____	
13. _____		(13) _____	
14. _____		(14) _____	
15. Total of item 14		(15) _____	
16. Dividends or withdrawals (state whether paid in cash, stock of the company, or other property):		(16) _____	
(a) _____		(17) _____	
(b) _____		(18) _____	
(c) _____		(19) _____	
(d) _____		(20) _____	
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SCHEDULE D—BALANCE SHEETS.

Attach hereto balance sheets as at the beginning and end of the accounting period (preferably in parallel columns), showing as nearly as practicable the details called for below (These balance sheets should be prepared from the books and should be in agreement therewith, or any differences should be reconciled.)

ASSETS.		LIABILITIES.	
Cash (including cash in bank and on hand, certificates of deposit, etc.)	Fixed assets:	Loans and notes payable:	
Trade			

Page 1 of Instructions.

GENERAL INSTRUCTIONS.

Partnership and Personal Service Corporation Return of Income.

PARTNERSHIPS AND PERSONAL SERVICE CORPORATIONS REQUIRED TO MAKE A RETURN OF INCOME.

1. *Partnerships*.—Every partnership, whether domestic or foreign, doing business in the United States must make a return of income on this form regardless of the amount of its gross or net income. (See Sections 218 and 224 of Revenue Act of 1921.)

2. *Personal service corporations*.—Every personal service corporation must make a return of income on this form regardless of the amount of its gross or net income. (See Section 218 of Revenue Act of 1921.)

3. *Personal service corporation defined*.—The term "personal service corporation" means a corporation, not expressly excluded, the income of which is derived from a profession or business (a) which consists principally of rendering personal service, (b) the earnings of which are to be ascribed primarily to the activities of the principal owners or stockholders, and (c) in which the employment of capital is not necessary or is only incidental. (See Section 200, paragraph 5, Revenue Act of 1921.)

4. *Corporations excluded*.—The following classes of corporations are expressly excluded from classification as personal service corporations: (a) Foreign corporations; (b) corporations 50 per cent or more of whose gross income consists of gains, profits, or income derived from trading as a principal; and (c) corporations 50 per cent or more of whose gross income consists of gains, profits, commissions, or other income derived from a Government contract or contracts made between April 6, 1917, and November 11, 1918, inclusive.

A corporation is not a personal service corporation merely because less than 50 per cent of its gross income was derived from trading as a principal or from Government contracts. A corporation can not be considered a personal service corporation when another corporation owns or controls substantially all of its stock, or when substantially all of its stock and of the stock of another corporation (not itself a personal service corporation) forming part of the same business enterprise is owned or controlled by the same interests. (See Sections 200 and 240 of the Revenue Act of 1921.)

5. *More than one business*.—A corporation engaged in two or more professions or businesses which are more or less related, one of which does not consist of rendering personal service, is not a personal service corporation unless the nonpersonal service element is negligible or merely incidental and no appreciable part of its earnings are to be ascribed to such sources. (See also Section 303 of the Revenue Act of 1921.)

6. *Activities of stockholders*.—In determining whether a corporation is a personal service corporation, no weight can be given to the fact that it renders personal services unless (a) the principal owners or stockholders are regularly engaged in the active conduct of its affairs, and are engaged in such a manner that the earnings are to be ascribed primarily to their activities, and (b) its affairs are conducted principally by such owners or stockholders. If employees contribute substantially to the services rendered by a corporation, it is not a personal service corporation unless in every case in which services are so rendered the value of and the compensation charged for such services are to be attributed primarily to the experience or skill of the principal owners or stockholders.

7. *Stock interest of active members*.—No corporation or its owners or stockholders shall make a return in the first instance on the basis of its being a personal service corporation unless at least 80 per cent of its stock is held by those regularly engaged in the active conduct of its affairs.

8. *Capital*.—In determining whether a corporation is a personal service corporation, no weight can be given to the fact that the invested capital of the corporation under Title III of the Act or the actual investment of the principal owners or stockholders is comparatively small. If the use of capital is necessary or more than incidental, capital is a material income-producing factor and the corporation is not a personal service corporation.

INSTRUCTIONS FOR FILLING IN SCHEDULE B, PAGE 1.

9. This Schedule is to be used for showing the share of each partner or stockholder in the income of the partnership or personal service corporation, whether distributed or not. Where the ownership of a personal service corporation has changed during the accounting period, the distributed portion of the net income is taxable to the recipients, while the undistributed portion is taxable to the owners as at the end of the accounting period.

10. Enter on lines (a), (b), (c), etc., the proportionate amount of the totals shown in columns 3 and 4 to which each individual partner or stockholder is entitled, whether distributed or not. If the amount to be entered in column 4 is a loss, the amount should be indicated by red ink or a minus sign.

11. If the partnership or personal service corporation received directly or through another partnership, personal service corporation, or a fiduciary, interest on corporation bonds containing a clause by which the debtor corporation agrees to pay the interest without any deduction

for taxes, and there were filed with such interest coupons a white certificate, Form 1000, not claiming exemption, a tax of 2 per cent was paid at the source, and this tax should be allocated to the members or stockholders in column 5.

12. If any amount is entered in column 6, a copy of Form 1116, completely filled in and sworn to or affirmed, must be submitted with this return. If such taxes have been paid, Form 1116 must have attached to it the receipt or other evidence of each such tax payment. If such taxes have been accrued, Form 1116 must have attached to it a copy of the return on which each such accrued tax was based, or other evidence as to the accrual of taxes.

13. When a credit is claimed on Form 1040 or Form 1040A for accrued taxes, the Commissioner may, as a condition precedent to the allowance of such credit, require the taxpayer to give a bond (Form 1117), with sureties satisfactory to and to be approved by him, in such penal sum as he may require, conditioned for the payment by the taxpayer of any amount of taxes found due if the taxes when paid differ from the amount claimed in respect thereof.

INTEREST ON LIBERTY BONDS, ETC.

14. In case the partnership or personal service corporation owned Liberty Bonds or other obligations of the United States issued since September 1, 1917 (except Victory Liberty Loan 3½% Notes, and postal saving certificates of deposit), or a share of these obligations held by another partnership, personal service corporation, or a fiduciary, the partnership or personal service corporation should advise each partner or stockholder as to his proportionate amount of these obligations and the interest thereon, in order that the partner or stockholder may determine whether the interest is taxable on his individual income-tax return.

PERIOD COVERED.

15. The accounting period is the calendar year ending December 31, 1921, or the fiscal year ending on the last day of any month other than December in the calendar year 1921. The accounting period established for the year immediately preceding must be adhered to, unless permission was received from the Commissioner to make a change.

16. If a partnership or corporation changes its accounting period, it shall as soon as possible give to the collector for transmission to the Commissioner written notice of such change and of its reasons therefor. Upon approval by the Commissioner, the taxpayer shall thereafter make his returns upon the basis of the new accounting period. (See Sections 212 (c) and 226, Revenue Act of 1921.)

TIME AND PLACE FOR FILING.

17. Returns must be sent to the Collector of Internal Revenue for the district in which the partnership's or corporation's principal place of business is located, so as to reach the Collector's office on or before the 15th day of the third month following the close of the accounting period.

SIGNATURES AND VERIFICATION.

18. Returns of partnerships must be sworn to by a member of the partnership. Corporation returns must be sworn to by the president, vice president, or other principal officer and by the treasurer or assistant treasurer of the corporation. If receivers, trustees in bankruptcy, or assignees are operating the property or business of the partnership or corporation, such receivers, trustees, or assignees shall execute the return under oath.

PENALTY FOR FAILURE TO FILE RETURN ON TIME.

19. A penalty of not more than \$1,000 attaches for failure to file a return within the time required by law. If the failure is willful or an attempt is made to defeat or evade the tax, the penalty is an amount not in excess of \$10,000 or imprisonment for not more than one year, or both, together with costs of prosecution.

INFORMATION AT THE SOURCE.

20. Every corporation making payments of salaries, wages, interest, rent, commissions, or other fixed or determinable income of \$1,000 or more during the calendar year, to any individual or partnership, is required to make a true and accurate return to the Commissioner of Internal Revenue, showing the nature and source of such payments and the name and address of the recipient. Forms 1096 and 1099, for reporting such information, will be furnished by any collector of internal revenue. Such returns of information covering the calendar year 1921 must be forwarded to the Commissioner of Internal Revenue, Sorting Section, Washington, D. C., in time to be received not later than March 15, 1922.

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DEPARTMENT PRINTING OFFICE

Page 2 of Instructions.

SCHEDULES TO BE FURNISHED IN SUPPORT OF ITEMS IN SCHEDULE A.

The schedules called for below should be prepared and firmly attached to the return. Designate each schedule with the number of the item in Schedule A which it explains. Make schedules on paper of uniform size, so far as practicable, and enter the name and address on each sheet. Attach a list of schedules accompanying the return, giving for each a brief title and schedule number.

SCHEDULE A2: COST OF GOODS SOLD, EXCLUSIVE OF EXPENSES, REPAIRS, AND OTHER ITEMS CALLED FOR SEPARATELY.

If you are engaged in a trade or business in which the production, purchase, or sale of merchandise is an income-producing factor, (a) secure from the Collector of Internal Revenue and file as a part of this return *Certificate of Inventory, Form 1129*, and (b) submit a schedule showing—

- (1) Cost of merchandise bought for sale.
- (2) Cost of manufacturing or otherwise producing goods. (List principal items of cost, grouping minor items in one amount.)
- (3) Plus inventory at beginning of year.
- (4) Total of items 1 to 3, inclusive.
- (5) Less inventory at end of year.
- (6) Cost of goods sold, item 4 minus item 5.

SCHEDULE A3: GROSS INCOME FROM SERVICES OR OPERATIONS OTHER THAN TRADING OR MANUFACTURING, LESS ALLOWANCES.

Submit a schedule showing the nature and amount of the principal items included herein, the minor items being grouped in one amount.

SCHEDULE A8: DIVIDENDS SUBJECT TO SURTAX ONLY.

Submit a schedule showing the amount received as dividends (a) from each domestic corporation other than a corporation entitled to the benefits of Section 262 of the Revenue Act of 1921, or (b) from each foreign corporation when it is shown to the satisfaction of the Commissioner that more than 50 per centum of the gross income of such foreign corporation for the three-year period ending with the close of its taxable year preceding the declaration of such dividends (or for each such part of such period as the corporation has been in existence) was derived from sources within the United States as determined under the provisions of Section 217 of the Act.

SCHEDULE A9: DIVIDENDS SUBJECT TO BOTH NORMAL AND SURTAX.

Submit a schedule showing dividends subject to both normal and surtax, whether received from foreign or domestic corporations, and which are not allowed as a credit under Section 215 of the Revenue Act of 1921.

SCHEDULE A10: OTHER INCOME (not including any amount with respect to sales of capital assets or miscellaneous investments nor interest on Liberty Bonds).

Submit a schedule showing the source, nature, and amount of the principal items included herein, the minor items being grouped in one amount.

SCHEDULE A12: ORDINARY AND NECESSARY EXPENSES (except amounts called for separately in Schedule A).

Submit a schedule showing character and amount of the principal items included herein, the minor items being grouped in one amount.

SCHEDULE A13: COMPENSATION OF PARTNERS OR SHAREHOLDERS.

Submit a schedule showing for each member of the partnership or stockholder of the corporation who was performing active service or who received compensation in any form from the partnership or corporation, (a) name, (b) duties, (c) time devoted to such duties, and (d) total compensation for the accounting period. A personal service corporation should also explain fully the manner and degree in which the earnings of the corporation are dependent on the activities of the stockholders.

SCHEDULE A14: REPAIRS (including labor, supplies, overhead, and other items properly chargeable to repairs).

Submit a schedule showing the nature and amount of the principal items included herein, the minor items being grouped in one amount.

Incidental repairs, which do not add to the value or appreciably prolong the life of property, are deductible as expenses. Expenditures for new buildings or for permanent improvements or betterments which increase the value of the property are chargeable to capital account. Expenditures for restoring or replacing property are not deductible under this or any other item of the return. Such expenditures are chargeable to capital account or to depreciation reserves, depending on the treatment of depreciation on the books of the taxpayer.

SCHEDULE A15: INTEREST.

Submit a detailed schedule with respect to interest paid or credited to any member. State the character and origin of the principal on which the interest was computed, and whether such principal is evidenced by notes or other forms of contract. Describe fully.

The amount of interest deductible under item 15, Schedule A, is the amount of interest paid or accrued within the taxable year on indebtedness, except on indebtedness incurred or continued to purchase or carry obligations or securities (other than obligations of the United States issued after September 24, 1917, and originally subscribed for by the taxpayer) the interest upon which is wholly exempt from taxation.

SCHEDULE A16: TAXES.

Submit a schedule showing taxes paid or accrued within the taxable year except (a) income, war profits and excess profits taxes imposed by the authority of the United States, (b) so much of the income, war profits and excess profits taxes, imposed by the authority of any foreign country or possession of the United States, as is allowed as a credit under Section 222, Revenue Act of 1921, (c) taxes assessed against local benefits of a kind tending to increase the value of the property assessed, and (d) taxes imposed upon the taxpayer upon his interest as shareholder or member of a corporation, which are paid by the corporation without reimbursement from the taxpayer.

SCHEDULE A17: BAD DEBTS.

Submit a schedule showing debts, or portions thereof, arising from sales or professional services that have been reported as income, which have been definitely ascertained to be worthless and charged off within the accounting period, or such reasonable amount as has been added to a reserve for bad debts within the year.

If the amount entered as item 17, Schedule A, is an addition to a reserve, furnish proof of the reasonableness of the amount. (See Section 234 (a) 5 of the Revenue Act of 1921.)

SCHEDULE A18: EXHAUSTION, WEAR AND TEAR (including obsolescence).

Submit a schedule in columnar form showing for each class of property the following information:

- (1) Kind of property (if buildings, state material of which constructed).
- (2) Date acquired.
- (3) Age when acquired.
- (4) Cost, or if acquired prior to March 1, 1913, the fair market value on that date.
- (5) Probable life after acquisition.
- (6) Amount of depreciation charged off this year.
- (7) Total amount of depreciation charged off previous to this year.

The total amount claimed in this schedule should correspond with the figures reflected in the balance sheet.

If obsolescence is a factor in determining your deduction, attach a statement showing the amount claimed for the accounting period and the basis on which computed.

The amount deductible on account of depreciation is an amount charged off which fairly measures the loss during the accounting period in the value of physical property by reason of exhaustion, wear, tear, and obsolescence. Such an amount should be determined on the basis of the cost of the property, or if acquired prior to March 1, 1913, the fair market value on that date and the probable number of years constituting its life. The capital sum to be replaced should be charged off over the probable life of the property either in equal annual installments or in accordance with any other recognized trade practice, such as an apportionment of the capital sum over units of production. Whatever plan or method of apportionment is adopted must be reasonable and should be described in the return. Stocks, bonds, and like securities are not subject to exhaustion, wear and tear within the meaning of the law.

SCHEDULE A19: DEPLETION.

If a deduction is claimed on account of depletion, secure from the Collector Form D (minerals), Form E (coal), Form F (miscellaneous nonmetals), Form O (oil and gas), or Form T (timber), fill in and file with return. If complete valuation data has been filed with questionnaire in previous years, then file with this return information necessary to bring your depletion schedule up to date, setting forth in full statement of all transactions bearing on deductions or additions to value of physical assets with explanation of how depletion deduction for the accounting period has been determined. In case of timber this should be done by filling in Form T (timber).

SCHEDULE A20: AMORTIZATION OF WAR FACILITIES.

In case a deduction is claimed on account of amortization, a schedule should be submitted containing the information called for in Guide Form 1007M, which explains in detail the manner in which a claim of this nature should be presented. A copy of this form may be obtained from the Commissioner. (See Section 214 (a) 9 of the Revenue Act of 1921.)

SCHEDULE A23: PROFIT OR LOSS ON SALES OF CAPITAL ASSETS AND MISCELLANEOUS INVESTMENTS.

Submit a schedule in columnar form showing the following information for each asset sold:

- (1) Kind of property.
- (2) Date acquired.
- (3) Sale price.
- (4) Cost.
- (5) Fair market value on March 1, 1913, if acquired prior to that date.
- (6) Cost of subsequent improvements.
- (7) Depreciation.
- (8) Net profit (or loss).
- (9) Amount in column 5 which represents good will, if any.

If any of the assets were acquired prior to March 1, 1913, state how the fair market value on that date was determined.

In case of exchange of property, submit evidence substantiating the basis used in arriving at the fair market value of the property received.

SCHEDULE A24: LOSSES SUSTAINED BY FIRE, STORM, ETC.

A schedule similar to the one requested above should be submitted with respect to losses of property arising from fire, storms, shipwreck, or other casualty, or from theft, and not compensated for by insurance or otherwise, except that column 3 should show "Insurance and salvage" instead of "Sale price."

CAPITAL EMPLOYED IN BUSINESS.

If the balance sheet (Schedule D) of a personal service corporation indicates that a substantial amount of capital (invested or borrowed) is employed in the business, submit a statement explaining why the employment of such capital is incidental and not necessary.

WORKING PAPERS.

Every partnership or corporation should preserve, available for inspection by a revenue officer, working papers showing—

1. The balance in each account on the partnership's or corporation's books that was used in preparing Schedule A.
2. The amount deducted from each such balance on account of each class of non-taxable income, unavailable deductions, and other adjustments indicated in Schedule C, with a reference to the number of the item in Schedule C in which each amount so deducted was included.
3. The remainder of each such balance, analyzed to show the amount included in each item of Schedule A, with a reference to the number of the item in Schedule A.

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